The Economist

20010908

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Print Edition — September 8th 2001

The case for brands
Far from being instruments of oppression, they make firms accountable to consumers ... More on this week's lead article

Previous print editions
Sep 1st 2001
Aug 25th 2001
Aug 18th 2001
Aug 11th 2001
Aug 4th 2001
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week

Business this week
Politics this week

Leaders

Brands
The case for brands

America, China and missile defences
Defence folly

The United States and Colombia
Changing the plan

Refugees
Welcome, stranger

Computer mergers
Over the hill at 20

Letters

On human rights, Boots, Central America, Europe's budget deficits, African-American victims, Amtrak, grading George Bush

Special Report

Brands
Who's wearing the trousers?

United States

The president and Congress
A recipe for indigestion

The race to replace Rudy Giuliani
Hey, you: I'm talking to you...

Congressional redistricting
Condit gets the finger

The Florida governor's race
Enter Ms Reno

The Virginia governor's race
The Earley bird gets caught

Endangered species
Crying wolf, very loudly

Lexington
Angels in the marble?

The Americas

Colombia's conflicts
Into battle

Policing in Brazil
Nice cops, nasty cops

Policing in Venezuela
Trigger happy

Latin American economies
Mexico overtakes Brazil

Caribbean diplomacy
Votes for hire

Asia

Japan
Reform on hold

Australia and refugees
Election ahoy

China and the Koreas
Fraternal meetings

Thailand
Marching back

Business

Hewlett-Packard and Compaq
Sheltering from the storm

The mess at Marconi
Tell it straight

India's sluggish privatisation
Unproductive

Trade publishing
Reshuffling the titles

Hollywood media scandals
Mags nix ethix trix

Logistics
From cul-de-sac to crossroads

The European car industry
The art of overtaking

Face value
Surviving Wall Street's blues

Finance & Economics

Stockmarkets
Driven to the same depths?

Commerzbank
A suitable suitor?

Europe's high-tech economies
Swedes chopped

Equity research
Virtue as its own reward

Zurich Financial Services
Re structure

The Tobin tax
Roasting an old chestnut

Economics focus
Productivity growth (cont'd?)

Science & Technology

Pharmacology
A bigger pill to swallow

Therapeutic antibodies
Seed v seed

Gallium arsenide semiconductors
Arsenic and chips

The new astronomy
Silent running

Books & Arts

Autumn fiction
Big, bold, bare and spare

Washington chronicle
Inside out

Hollywood's civil war
Extra special

Environmental scrutiny
Doomsday postponed

Catholic anti-Semitism
A case to answer

Advertisement

India
Step on the gas

Radiation in Kazakhstan
A nuclear dustbin?

Fundamentalism in Pakistan
In the shadow of the Taliban

Jim Rohwer

International

Debating racism
Shambles and fury in Durban

Iran
The benefits of lashing

Libya
Beckoning and rebuffing

Palestinian refugees
In the camps, sheer frustration

The Seychelles
Wooed by cheese spread

Europe

Belarus
A rotten state

Russia's far north
An ambiguous presidential visit

Multi-racial Poland
Football can help

France and globalisation
In search of a (leading) role

France's presidential hopefuls
Also-rans or party-poopers?

Conferences in Italy
Where's safe?

The European Union and Cyprus
Crisis ahead

Hungary's government
Does it like the market?

Charlemagne
Rudolf Scharping

Britain

Northern Ireland
The Protestant retreat

Refugees
Not my problem

The refugees
They want in

Employment
The redundant male

Housing
Your home is my home

Prostitution
Red lights ahead

Airports
Windfall at Heathrow

Bagehot
Don't mention the S word

Saudi Arabia's future
Petrobaroque

Public life on the run
One that got away

Thomas Bernhard
The grinch who stole Austria

Product placement in books
Homer did it first

Obituary

Christiaan Barnard

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Economic forecasts

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

The Economist all-items index

Emerging-Market Indicators

Overview

Consumer prices

Economy

Financial markets

Articles flagged with this icon are printed only in the British edition of *The Economist*

Advertisement

Classifieds

Jobs

Senior Business Manager Opportunities
BE CHALLENGED SENIOR BUSINESS MANAGER OPPORTUNITIES We are see....

Tenders

Economic Advice to the European Commission (EC) Delegation Kigali, Rwanda
Economic Advice to the European Comm....

Jobs

Postdoctoral Fellowship at the Institute for the Social Sciences
Postdoctoral Fellowship Opening Cornell University ....

Tenders

Science City: International Sustainability Competition
Science City: International Sustainability Competit....

Jobs

Legal Affairs Officer
Rules Division World Trade Organization The World Trade Organization in ....

Tenders

Request for Proposals: A course on Budget Policies and Investments for Children
Request for Proposals: ....

Produced by = ECO PDF TEAM =
Thanks xxmama

Sponsors' feature About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Business this week

Sep 6th 2001
From The Economist print edition

Hewlett-Packard announced plans to acquire its rival, **Compaq**, in a $20 billion deal. The merger will produce an $87 billion information-technology giant, rivalling IBM in services and Dell Computer in computer making. Despite attempts by the companies to pitch the merger as a strategic move, investors were unimpressed. Shares of HP fell by over 20%, wiping out the promised premium to Compaq's shareholders. Both companies have lost market share over the past year.

See article: Sheltering from the storm

A complicated peace to one of the most vicious **corporate rows** of recent years may be in the works. The squabble concerns a previous manoeuvre by which PPR, a French retail group, undermined the stakes of French luxury goods group, LVMH, in **Gucci**. Under the proposed peace offer, PPR would acquire a majority stake in Gucci, and its minority shareholders would get a special dividend. Gucci's shares rose on the news.

Fire and hire

Reuters

Marconi, the troubled telecoms-equipment company, sacked its chief executive, Lord Simpson, and chairman, Sir Roger Hurn, on news that it would lose £227m ($330m) in the six months to the end of September. It had told investors it expected to break even. Marconi's sales fell by nearly half in the second quarter compared with the first.

See article: Tell it straight

Schroders, a London-based asset-management firm, fired its chief executive, David Salisbury, as its profits tumbled by 68%. It also laid off about 100 employees. The 183-year-old firm's performance has sagged in an increasingly competitive market. Following the sale of its investment-banking division to **Citigroup** last year, many of its top managers have left and it has had trouble attracting new talent.

Speculation ended over who will succeed **Volkswagen's** chairman, Ferdinand Piech, when he retires in spring 2002. The company is primed to appoint Bernd Pischetsrieder, who now sits on the board. Mr Pischetsrieder was ousted from BMW in 1999 for failing to return its British subsidiary, Rover, to profitability.

See article: The art of overtaking

On the line

The mobile-phone industry could be in for a big shake-up. **Ericsson**, the telecoms-infrastructure behemoth, announced that it will license much of its wireless technology, including that needed for third-generation mobile phones, to any manufacturer. The decision, which follows a similar move by **Motorola** in July, will drastically reduce barriers to entry. Europeans may see the first third-generation mobile phones on the market in a year's time.

KPN, the Dutch telecoms operator famous for living beyond its means, faces a possible fire-sale of its assets. The debt-laden company had tried to woo **Belgacom**, its cash-rich Belgian counterpart, in merger talks, but the negotiations broke down. It will run out of cash to service its debt by June of next

year.

Another heavily indebted telecoms firm, **France Telecom**, admitted that its net debt had jumped to *euro*64.9 billion ($57.8 billion) and said poor stockmarkets would slow its plans to cut borrowings.

NTT DoCoMo of Japan said it had asked the government for permission to launch its third-generation mobile-phone service, FOMA, on a fully commercial basis from October 1st. Investors in the much-publicised third-generation systems breathed a sigh of relief.

American regulators widened their probe into France's state-owned bank **Crédit Lyonnais**. Prosecutors may seek to charge the bank with conspiracy and money laundering.

Shampoo spies

Procter & Gamble has blown the whistle on its own corporate espionage activities. The consumer-products giant has been in talks with its rival, **Unilever**, after discovering that its spies had taken improper steps to gather information about Unilever's hair-care business.

Deutsche Bank bid $2.5 billion-3 billion for **Zurich Scudder**, a mutual-fund manager owned by Zurich Financial Services. Deutsche is now favourite to buy Scudder; its rival Amvescap has yet to decide whether to bid.

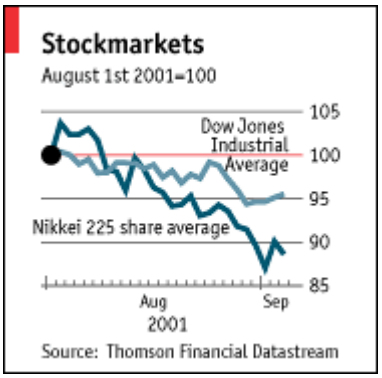
See article: Re structure

The **Chinese government** dropped CSFB from two underwriting deals, accusing the investment bank of “political misconduct”. The dispute centred on CSFB's involvement in a European road show for the Taiwanese Ministry of Finance, which Beijing regarded as a recognition of Taiwan's claim to sovereignty.

America's National Association of Purchasing Managers' index of factory activity leaped to 47.9 in August, up from 43.6 in July and its best reading in nine months. The figures suggest that manufacturing may be on the way to recovery. Yet any number below 50 suggests that manufacturing is still contracting. American Treasury bonds fell on lowered expectations of future interest-rate cuts.

Stockmarkets seem to be in a downhill race. The Dow Jones Industrial Average dipped below 10,000, while the Nikkei 225 Stockmarket Average hit another 17-year low, of 10,410.

Corbis



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Sep 6th 2001
From The Economist print edition

A UN **conference on racism** in South Africa descended into chaos and recrimination. The United States and Israel walked out, demanding that language branding Israel as a racist and apartheid state be removed from documents. The EU and Canada considered following suit, but relented. Consensus: total failure.

See article: Shambles and fury in Durban

A suicide-bomber blew himself up and injured 13 others in **Jerusalem**, overshadowing the latest bid for peace led by Javier Solana, the EU's foreign-policy chief, who was trying to broker a meeting between Yasser Arafat, the Palestinian leader, and Shimon Peres, Israel's foreign minister. Mr Solana left Jerusalem with no sign of success.

Investigation postponed

A Paris appeals court removed the magistrate who for seven years had been investigating claims that France's president, **Jacques Chirac**, had been involved in financial misconduct over municipal housing. Although this could postpone further investigation into the case until after next year's presidential election, Mr Chirac still faces other embarrassing allegations.

See article: Also-rans or party-poopers?

Gerhard Schröder, Germany's chancellor, stood by his defence minister **Rudolf Scharping**, as calls mounted for the minister to resign over his alleged misuse of military aircraft.

See article: Rudolf Scharping

On a visit to **Belgrade** Carla Del Ponte, the chief UN war-crimes prosecutor, called for the arrest of Ratko Mladic, a former Bosnian-Serb commander accused of genocide. Zoran Djindjic, Serbia's prime minister, said that he did not know where Mr Mladic was.

As NATO soldiers peacefully continued to collect arms handed in by ethnic-Albanian rebels in **Macedonia**, the country's parliament debated reforms designed to end the conflict. The EU's envoy to Macedonia, François Léotard, suggested that an EU military force independent of the United States should stay on after NATO's 30-day mission ends.

The European Parliament said that corruption, weak judicial systems and discrimination against minorities in the 12 countries seeking to join the **European Union** could make it difficult to pass accession legislation by the end of 2002 deadline.

Violence towards Catholics taking their children to school through a Protestant area of Belfast, in **Northern Ireland**, intensified when a pipe bomb was thrown at a security corridor of riot police.

See article: The Protestant retreat

Another senator to go

Phil Gramm, a conservative **Republican senator**, announced he would retire in January 2003. His decision, which surprised his colleagues, puts another seat into the balance in the closely divided Senate.

See article: A recipe for indigestion

In order, apparently, to gain Chinese support for its missile-defence scheme, the Bush administration indicated that it no longer objected to China increasing its nuclear arsenal. It also appeared relaxed about China one day resuming **nuclear tests**.

See article: Defence folly

Janet Reno, Bill Clinton's attorney-general, said she would run for **governor** of Florida. If she wins the Democratic primary, she will probably face Jeb Bush, the current Republican governor.

See article: Enter Ms Reno

A report by Columbia University said that 60% of American high-school students were attending schools where **drugs** were taken, kept or sold. Addiction and other drug-related problems would, it said, add $41 billion to the cost of elementary and secondary education in America this year.

Help for illegals

Vicente Fox, **Mexico's** president, made a state visit to Washington, in which he called for agreement to be reached quickly on the status of the 3m or so Mexicans living illegally in the United States.

See article: Angels in the marble?

Colombia's president, Andres Pastrana, defended his increasingly unpopular peace process, saying that to end a safe haven for the FARC guerrillas would “aggravate the conflict”.

See article: Into battle

Execution threat

Afghanistan's ruling **Taliban** said that eight aid workers—four Germans, two Americans and two Australians—faced possible execution if found guilty of trying to convert Muslims to Christianity.

See article: Election ahoy

In early results of a general election in **Fiji**, those elected included George Speight, the leader of last year's rebellion, and Mahendra Chaudhry, the prime minister he ousted.

Singapore agreed to pay Malaysia for its water at 15 times the present rate in order to guarantee the supply until 2061. Better pricey than not at all, said Lee Kuan Yew, Singapore's senior minister.

South Korea's parliament passed a vote of no confidence in Lim Ding Won, the minister in charge of negotiations with **North Korea**, triggering the resignation of the entire cabinet. A government spokesman said that the policy of reconciliation with the North would still continue.

See article: Fraternal meetings

The Indonesian government sought to appease rebels in **Aceh** province, where violence is increasing, by promising “honest and open” dialogue. However, the government ruled out independence for Aceh.

Indian security forces shot dead 16 rebels in gun battles in **Kashmir**. Violence has soared since a peace summit in July between India and Pakistan ended in deadlock.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Brands

The case for brands

Sep 6th 2001
From The Economist print edition

Far from being instruments of oppression, they make firms accountable to consumers

IMAGINE a world without brands. It existed once, and still exists, more or less, in the world's poorest places. No raucous advertising, no ugly billboards, no McDonald's. Yet, given a chance and a bit of money, people flee this Eden. They seek out Budweiser instead of their local tipple, ditch nameless shirts for Gap, prefer Marlboros to home-grown smokes. What should one conclude? That people are pawns in the hands of giant companies with huge advertising budgets and global reach? Or that brands bring something that people think is better than what they had before?

The pawn theory is argued, forcefully if not always coherently, by Naomi Klein, author of “No Logo”, a book that has become a bible of the anti-globalisation movement. Her thesis is that brands have come to represent “a fascist state where we all salute the logo and have little opportunity for criticism because our newspapers, television stations, Internet servers, streets and retail spaces are all controlled by multinational corporate interests.” The ubiquity and power of brand advertising curtails choice, she claims; produced cheaply in third-world sweatshops, branded goods displace local alternatives and force a grey cultural homogeneity on the world.

Brands have thus become stalking horses for international capitalism. Outside the United States, they are now symbols of America's corporate power, since most of the world's best-known brands are American. Around them accrete all the worries about environmental damage, human-rights abuses and sweated labour that anti-globalists like to put on their placards. No wonder brands seem bad.

Product power or people power

Yet this is a wholly misleading account of the nature of brands (see special report). They began as a form not of exploitation, but of consumer protection. In pre-industrial days, people knew exactly what went into their meat pies and which butchers were trustworthy; once they moved to cities, they no longer did. A brand provided a guarantee of reliability and quality. Its owner had a powerful incentive to ensure that each pie was as good as the previous one, because that would persuade people to come back for more.

Just as distance created a need for brands in the 19th century, so in the age of globalisation and the Internet it reinforces their value. A book-buyer might not entrust a company based in Seattle with his credit-card number had experience not taught him to trust the Amazon brand; an American might not accept a bottle of French water were it not for the name of Evian. Because consumer trust is the basis of all brand values, companies that own the brands have an immense incentive to work to retain that trust.

Indeed, the dependence of successful brands on trust and consistent quality suggests that consumers need more of them. In poor countries, the arrival of foreign brands points to an increase in competition from which consumers gain. Anybody in Britain old enough to remember the hideous Wimpy, a travesty of a hamburger, must recall the arrival of McDonald's with gratitude. Public services live in a No Logo world: attempts at government branding arouse derision. That is because brands have value only where consumers have choice, which rarely exists in public services. The absence of brands in the public sector reflects a world like that of the old Soviet Union, in which consumer choice has little role.

Brands are the tools with which companies seek to build and retain customer loyalty. Because that often requires expensive advertising and good marketing, a strong brand can raise both prices and barriers to entry. But not to insuperable levels: brands fade as tastes change (Nescafé has fallen, while Starbucks

has risen); the vagaries of fashion can rebuild a brand that once seemed moribund (think of cars like the Mini or Beetle); and quality of service still counts (hence the rise of Amazon). Many brands have been around for more than a century, but the past two decades have seen many more displaced by new global names, such as Microsoft and Nokia.

Now a change is taking place in the role of brands. Increasingly, customers pay more for a brand because it seems to represent a way of life or a set of ideas. Companies exploit people's emotional needs as well as their desires to consume. Hence Nike's “just-do-it” attempt to persuade runners that it is selling personal achievement, or Coca-Cola's relentless effort to associate its fizzy drink with carefree fun. Companies deliberately concoct a story around their service or product, trying to turn a run-of-the-mill purchase (think of Häagen-Dazs ice cream) into something more thrilling.

This peddling of superior lifestyles is something that irritates many consumers. They disapprove of the vapid notion that spending more on a soft drink or ice cream can bring happiness or social cachet. Fair enough: and yet people in every age and culture have always hunted for ways to acquire social cachet. For medieval European grandees, it was the details of dress, and sumptuary laws sought to stamp out imitations by the lower orders; now the poorest African country has its clothing markets where second-hand designer labels command a premium over pre-worn No Logo.

The flip side of the power and importance of a brand is its growing vulnerability. Because it is so valuable to a company, a brand must be cosseted, sustained and protected. A failed advertising campaign, a drop-off in quality or a hint of scandal can all quickly send customers fleeing. Indeed, protesters, including Ms Klein's anti-globalisation supporters, can use the power of the brand against companies by drumming up evidence of workers ill-treated or rivers polluted. Thanks, ironically enough, to globalisation, they can do this all round the world. The more companies promote the value of their brands, the more they will need to seem ethically robust and environmentally pure. Whether protesters will actually succeed in advancing the interests of those they claim to champion is another question. The fact remains that brands give them far more power over companies than they would otherwise have. Companies may grumble about that, but it is hard to see why the enemies of brand “fascism” are complaining.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION LEADERS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

America, China and missile defences

Defence folly

Sep 6th 2001
From The Economist print edition

The single-minded pursuit of missile defences makes America a danger to itself

Get article background

AP

GEORGE BUSH has plenty of support for his missile-defence plans, yet many of the enthusiasts were up in arms this week at the suggestion that, to get China to drop its opposition to those plans, America would not object to China's expansion of its smallish nuclear-missile force. No doubt, China's leaders were amused: they had not thought to wait for America's approval. They have been modernising their nuclear arsenal for some time. Since China is the most secretive of the nuclear set, no one in America will ever know whether Mr Bush's anti-missile plans will cause it to build more rockets. Still, it will be a pity if Mr Bush uses forthcoming talks with the Chinese actually to encourage their military build-up. He needs other ways to prevent his yet-to-be-deployed defences or China's new rockets from sparking hostility.

More troubling than the suggested trade-off between missile defence and new rockets was the administration's broad hint that it would also understand if China—which, like America, has signed the Comprehensive Test-Ban Treaty but not ratified it—were someday to resume explosive nuclear testing. At this point America starts to look like a danger to itself.

Mr Bush has been right to point to the dangers of any spread of long-range missile know-how to unstable parts of Asia, the Middle East and the Gulf. He worries that a regime bent on bother which had just a few such rockets might calculate that its ability to threaten New York or Los Angeles, or for that matter Paris or Berlin, were enough to make aggression easier to get away with. Not everyone agrees that his proposed limited defences are the answer, but even sceptics acknowledge the problem. Russia and China, which along with North Korea have done most to get miscreants started in the missile business, have felt obliged to tighten up their export rules—though America has just slapped sanctions on a Chinese company for its missile help to Pakistan.

But concentrating on the possibility of future missile threats seems to be blinding the Bush team to other dangers. There are plenty of other ways to deliver a nuclear, chemical or bug bomb. And since technology anyway seldom works flawlessly, stopping the spread of weapons of mass destruction and the means to deliver them should surely be Mr Bush's first priority. Defending against them is a tricky last resort should anti-proliferation diplomacy and deterrence fail.

Mr Bush's officials insist they are fighting proliferation too. Yet they want to trim the funds spent to ensure that nuclear materials and expertise do not leak from Russia's sprawling nuclear complex, and to lift sanctions on military trade with India, without any assurance that India and Pakistan will curtail their nuclear and missile rivalry. Now comes the suggestion that China might like to take back its test-ban promise.

Mr Bush has no intention of ratifying the test-ban treaty either. His aides argue that it does not stop new countries getting the bomb—which is the job of the Nuclear Non-Proliferation Treaty—and prevents responsible nuclear powers from ensuring the reliability of their weapons. Yet the United States has other ways of checking its bomb designs. And the promise of a test ban helped win the indefinite extension of the non-proliferation treaty. If America walks away from the bargain, so can others that covet a bomb of their own. What folly for America to spend billions on missile defences, while unravelling the rules which

limit the weapons that may someday get through or around them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The United States and Colombia

Changing the plan

Sep 6th 2001
From The Economist print edition

The United States should be helping Colombia not to banish drugs but to build a better army

Get article background

AP

NEXT week Colin Powell, the American secretary of state, is due to become the first member of George Bush's cabinet to visit Colombia. Not before time, you might think. The Bush administration inherited a controversial commitment to Plan Colombia, a scheme launched by President Andres Pastrana to fight drugs and guerrillas. Mr Bush has opted to continue with the plan: he has asked Congress for $880m in aid to Colombia and its Andean neighbours, on top of the $1.3 billion in mainly military aid approved last year.

Plan Colombia arose from a fear that the country's democracy was being overwhelmed by guerrillas, right-wing paramilitary vigilantes and the drug gangs that supply four-fifths of the world's cocaine. But, so far, its results have been, at best, mixed. Parts of it should be scrapped, and others rethought.

At the plan's centre is the creation of an army brigade trained and equipped by America. Its job is to give protection to the government's agents in their efforts to eradicate coca, mainly through the aerial spraying of weedkiller on coca fields. It is hoped that the spraying will encourage other coca farmers to agree to voluntary eradication schemes.

There are two main objections to the scheme. One is that the weedkiller destroys the food crops of the coca farmers, and may damage human health. The other is that the whole exercise is a Sisyphean folly, which benefits only a bureaucratic-industrial complex of contractors who carry out the eradication. A decade of intense American efforts to eradicate coca have had almost no effect on overall cocaine production. Unless cocaine is legalised, Plan Colombia will drive coca deeper into virgin jungle or into neighbouring countries.

The Bush administration's aid request gives only a token nod to such worries: rebaptised as the Andean Regional Initiative, it offers a little extra money for economic development and for Colombia's neighbours (though Congress may yet trim the total). A better, though more expensive, policy would concentrate on promoting economic alternatives to coca, especially since the collapse in coffee prices is driving thousands more farmers into coca production.

A second aim of Plan Colombia is to strengthen the army, thus, it was hoped, forcing the main guerrilla force, the FARC, to take more seriously peace talks begun by Mr Pastrana in 1998. The two aims are linked: the idea was that coca eradication would weaken the guerrillas by squeezing their drug income. In practice, Mr Pastrana has held back from eradication in FARC-controlled areas. However, thanks in part to American aid, the army is stronger than it was three years ago. The FARC is no longer winning the war. But neither has it shown any sign of being serious about making peace (see article).

Mr Pastrana now looks unlikely to achieve a ceasefire with either the FARC or the ELN, the second guerrilla group, before his term ends next August. That is leading to calls, both in Colombia and in Washington, for him to put an end to the “demilitarised zone” that he granted the FARC to get talks going. Yet that would be a mistake. There is a case for reducing the size of the zone, and for insisting on outside monitoring of the FARC's activities there. But ending it, and thus the talks, would give credence

to the idea, held by army commanders and some of the candidates to succeed Mr Pastrana, that the FARC can be defeated militarily. It cannot. It can, however, be weakened to the point where it seeks peace. Even so, political engagement and talks will still be needed.

Drug-takers have obligations too

So, too, may military aid. That horrifies Europeans. But as a democracy under siege from drug-financed illegal armies, Colombia has the right to ask its drug-consuming allies for help. On the other hand, there is a genuine danger that the army's greater military strength will turn into greater political power.

To counter that means doing more to safeguard democracy and human rights. The United States should be pressing harder than it has so far for Colombia's army to tackle the rightist paramilitaries, who work in cahoots with some of its officers. And if a new national-security law that gives the army quasi-judicial powers in some circumstances is not to be misused, Colombia needs a stronger prosecutors' office and a stronger judiciary. Plan Colombia should pay less attention to weedkilling, and more to strengthening democracy.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Refugees

Welcome, stranger

Sep 6th 2001
From The Economist print edition

Rich countries should recognise the benefits of immigrants and keep the costs in perspective

EPA

IMMIGRATION, it seems, hardens hearts and softens brains like few other issues. Take a boatload of Afghans bobbing in the coastal waters of Australia and, on the other side of the world, an apparently endless queue of refugees trying to make their way through the Channel Tunnel into Britain, and watch compassion and clear-mindedness fly out the window. Liberals abandon their tolerance, and their professed dislike of government restrictions. Socialists speak of job-stealers. Conservatives mutter about spongers and scroungers, forgetting that immigrants generally bring with them the qualities of thrift, hard work and enterprise. Neither love nor logic supports hostility to immigration. No respectable religion or political credo says it is a sin to seek a better life, still less to escape persecution. Those who object to immigrants are, if they are honest, nearly always just responding to one of mankind's baser instincts—a deep-rooted suspicion of outsiders.

Accept this not as a point in a sermon, but as a basis for policy. In a better world, all countries, rich and poor, would allow migrants to come and go as they pleased. They might not be eligible for all the entitlements available to citizens, but they would be recognised for what most of them are: decent people seeking to better their lives, and usually at the same time doing jobs that locals either cannot or will not do, and thus contributing to the common good. But the world, or rather its inhabitants, are imperfect, and completely unrestricted immigration would certainly lead to huge practical difficulties and probably intolerable racial or communal strains. So governments have to try to control the number of immigrants they admit. But a recognition of why they are doing this—their readiness to yield to the strength of human prejudice—should make them strive, first, to be compassionate and, second, to be fair.

In the case of the Afghans on the *Tampa* (see article), compassion should have led to their early disembarkation on Australian soil. The government's decision to send them on to Papua New Guinea, and thence to more welcoming countries (including Nauru, a benighted outcrop of ancient guano in the middle of the Pacific), does little for Australia's reputation for hospitality. Fairness too would at least give them the chance to state their case to be genuine refugees, which, since they come from a country ruled by the Taliban, is *prima facie* strong. But fairness would also allow Australia to send them back if they were found to be in no danger at home. If a country has a policy of accepting some immigrants—Australia takes 70,000-100,000 a year, and 10,000 refugees—it would be right to give preference to those who had made an orderly application and patiently waited for admission, rather than arriving unannounced by makeshift raft or listing coaster.

Problems, but manageable ones

Compassion also suggests that France is right to provide shelter for refugees trying to get into Britain, even though fairness suggests they should be admitted (perhaps by France itself, or other European Union countries) or sent home according to principles other than mere luck and determination. Their ability to fill vacant jobs would be one. And Britain should acknowledge that immigrants will always try to enter illegally if they have virtually no hope of entering legally.

In practice, it is often impossible to distinguish between immigrants seeking a better life and those with a well-founded fear of persecution—the acid test for automatic admission as a refugee set by a UN

convention in 1951. Few immigrants unambiguously fit the description. The difficulty of proving or disproving claims, plus appeals against rejections, means applications are processed slowly, so most refugees in rich countries manage to stay, legally or not. The business of housing refugees and dealing with their applications undoubtedly places a burden on taxpayers, but the problem should be kept in proportion. If, as one study suggested this week, Britain in fact takes four times as many immigrants as it legally accepts, no great harm seems to be done: Britain's racial troubles derive more from a failure to integrate the legal immigrants admitted decades ago than from any current wave of illegals.

In fact, rich countries probably gain far more than they lose from immigration. It is poor countries, which are seldom short of unskilled labour, that may genuinely bear a burden from playing host to the world's many victims of war, hunger and intolerance. The country with the most refugees is Pakistan, with over 2m; then comes Iran (1.9m), Germany (0.9m) and Tanzania (0.7m). Rich countries should recognise their relative good fortune, set generous quotas for needed immigrants and then set about the admittedly difficult task of rejecting others with much better grace than they now seem to muster.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Computer mergers

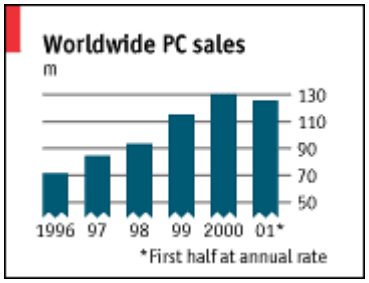
Over the hill at 20

Sep 6th 2001
From The Economist print edition

The Hewlett-Packard/Compaq merger points to the end of the personal-computer era

IT WAS a birthday party, but it may be remembered as a wake. Early last month computer bosses gathered in San Jose, California, to toast the 20th anniversary of the launch of IBM's first personal computer in August 1981. Among those present were Bill Gates of Microsoft, Andy Grove of Intel, Michael Capellas of Compaq and Carly Fiorina of Hewlett-Packard (HP). As the wine and canapés made the rounds, Mr Capellas and Ms Fiorina kept mum about their firms' plan to merge. It would have spoiled the mood. For their merger is motivated in large part by a realisation that, 20 years on, the personal computer has had its day.

The end of the PC's pre-eminence was heralded in July by figures suggesting that, after years of heady growth, worldwide sales of PCs are likely to fall this year. In the second quarter, they were down by 2% on a year earlier. It is tempting to blame the global technology slowdown for this decline. But there are structural factors at work.



Market saturation has not previously been a problem for a product that becomes obsolete within a year or two of purchase, but PCs are not becoming useless doorstops as fast as they did. Consumers see little reason to upgrade; recent fads, such as online gaming and downloading music, are constrained by the speed of Internet connections, not by PC performance. The industry hopes that the imminent launch of Windows XP, the new version of Microsoft's operating system, will revive its fortunes. It is likely to be disappointed.

Another factor is the rise of devices such as handheld computers, personal organisers and Internet-capable mobile telephones, combined sales of which will probably overtake PCs this year. The PC is now just one of many devices through which people gain access to information. HP has acknowledged this in its post-merger plans. Instead of a PC division, it will have an “access devices” division that will make all manner of things. Initially, these will be mostly PCs, but it will increasingly focus on handhelds. Compaq is strong in this area: its iPaq is widely seen as the best product in its class.

A further problem for the PC industry is the trend towards “commoditisation”. Compaq started this by pioneering the IBM PC“clone”, which generalised an IBM product into an entirely new industry. Dozens of firms sprang up to build machines compatible with IBM's original. A few years later, Dell revolutionised the industry with its direct sales and build-to-order approach, and the result was even fiercer price competition. Now a mere handful of PC makers are left; as sales stagnate, they are dropping out fast. The PC has become just another low-margin piece of consumer electronics.

Carly's black labels

The HP-Compaq deal, which would consolidate the world's second- and third-largest PC makers, is thus best seen as a defensive move in a shrinking industry (see article). The merged firm hopes that its size will let it reduce costs through economies of scale. Other PC makers are looking elsewhere for growth and profits. Even Dell, the world's biggest, announced recently that it would start making networking equipment as well.

Compaq's plan was to shift from hardware into consultancy and services, the mainstay of IBM's business; HP, which also wanted to move into services, might have had to ditch the PC business altogether. Hence the appeal of a merger, letting the two pool resources to compete better with Dell in the market for PCs

and with IBM in the market for services. Even so, the union will be a Frankenstein affair, given their overlapping lines. The stockmarkets are right to be sceptical. And the deal may run into antitrust trouble because of the pair's share of the retail PC market, especially with the European Commission, fresh from killing the GE/Honeywell merger.

The trustbusters should relax, for the real significance of the merger is its marking of the end of the PC era. The PC will not disappear; after all, it came to prominence by dethroning the mainframe computer, yet mainframes continue to hum in data centres around the world. But the PC is no longer the hub of the computing universe. HP's decision to buy Compaq may involve much wishful thinking and could well turn out badly—but by accepting that neither can compete alone in a declining PC market, it acknowledges that change.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Sep 6th 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Human rights and wrongs

SIR – Economic, social and cultural rights are not new, although they have often been seen as the poor relations of civil and political liberties ("The politics of human rights" and "Righting wrongs", August 18th). Why the neglect? There were ideological reasons but there was also a lack of intellectual clarity regarding the definition and scope of these rights, while the information required to monitor their application was seen as daunting. Today, a growing body of jurisprudence is helping to flesh out these rights. Far from being "undefinable and undeliverable", they can be measured, and indeed already are. A UN panel monitors how states comply with their obligations under the International Covenant on Economic, Social and Cultural Rights. As of today, 145 countries submit reports to that group.

Increasing attention to economic, social and cultural rights comes in response to a situation in which a fifth of the world's population goes hungry every night, a quarter lacks access to even a basic necessity like safe drinking-water, and a third lives in abject poverty. That is what the indivisibility of human rights means in practical terms—that it is impossible to enjoy human dignity, freedom and equality without food, health or shelter.

Mary Robinson
UN high commissioner for human rights
Geneva

SIR – You juxtapose "enormously costly" economic and social rights with "relatively cheap" civil and political rights. But providing due process to all citizens through an effective judicial system with guaranteed representation is certainly a more expensive proposition than providing basic health care or public education.

The problem is not lack of resources but lack of political will. The same governments that find money for the latest weapons and readily grant mega-corporations enforceable economic rights cry poverty when it comes to changing the policies that consign almost half of humanity to squalor and degradation.

Roger Normand
Executive director, Centre for Economic and Social Rights
New York

SIR – The vague formulation of economic, social and cultural rights does not necessarily lead to the will of judges replacing that of the people, as you argue. The covenant stresses the importance of legislation, which can be as detailed and as enforceable as the legislator wishes. America's government is wrong in claiming that ratifying the covenant would allow citizens to sue it willy-nilly.

Stephen Marks
Director
François-Xavier Bagnoud Centre for Health and Human Rights
Boston

SIR – Much of the debate among human-rights organisations about expanding their writ to encompass new economic and social "rights" can, I suspect, be directly traced to the socialist bent of many on their staff.

Tellingly, you quote Michael Ignatieff as saying that, in terms of the rich countries, “Doing something about AIDS in Africa is not about charity, it is a matter of obligation”; whilst the head of Human Rights Watch criticises governments who “defend excessive profits over the right of access to life-saving medicines”.

Apparently, since the poorer countries lack the resources to deliver economic and social rights, like health care, adequate food or a “living wage”, this obligation must be imposed on rich countries. What better way to do this than by “criminalising” lack of charity as a human-rights abuse right up there with torture?

These efforts to establish international economic and social human rights should be recognised for what they are: an attempt to put teeth into the hoary socialist dream of global wealth redistribution.

Keith McDermott
Greenwich, Connecticut

SIR – For organisations like ActionAid that work with very poor people in some of the poorest countries, the philosophical and moral basis of viewing food, health, education, security and shelter as basic human rights is obvious. However, for millions of poor women and children in the developing world, this is not a philosophical question. Not to have food, water, health care or a secure environment is a matter of life and death.

If there were large-scale deaths from starvation, malnutrition and disease in the West, surely even *The Economist* would have asked if the state had to take some responsibility for this. It costs less than the world spends in a week on arms to provide basic health care and education for the world's poorest people. It is the persistent practice of double standards and violation of rights (even in rich countries) that underlies the protests against globalisation. Nothing can legitimise poverty and injustice at this scale, not even fig-leaf democracies.

Salil Shetty
Chief executive, ActionAid
London

SIR – I find unpersuasive your argument that human rights organisations might undermine their defence of “basic liberties” (by which you presumably mean political ones) by advocating social and economic rights. It seems as probable that they will undermine their credibility to a greater extent by failing to endorse economic and social rights. They are already under attack from a significant segment of international opinion for placing political rights above economic ones, particularly in the context of countries where the basic food and health needs of much of the population are neglected.

Richard Greene
Princeton, New Jersey

Putting the boot in

SIR – You criticise some of the biggest British high-street names for being unable to cope with competition from “foreign” retailers and for being over-extended and badly managed (“High Street woes”, July 28th). Whatever the merits of this analysis, the references to Boots The Chemists were inaccurate and inappropriate. Far from suffering a drop in profits, Boots has consistently reported profits growth, including a 7% increase (pre-exceptionals) for the last financial year. Gross margins have also risen while reported net margin is among the highest in the industry. The reference to the number of Boots stores on Oxford Street, London, as an illustration of many chains having over-expanded is a misreading of the situation. The number of stores reflects the need for convenient access for those who shop and work on Oxford Street. All stores are trading well and your comment about reluctance to close them for fear of a “public backlash” has no foundation.

Nobody claims that retailing is easy in today's competitive environment. Boots' differentiation strategy is explicitly designed to reshape and refocus its customer offer in response to market changes and new business opportunities. Current performance indicates that this is the right strategy and that it is working.

Ken Piggott
Managing director, The Boots Company
Nottingham

Central America's future

SIR – You correctly point out that too many initiatives adopted in Central America originate elsewhere and depend excessively on the willingness of outsiders to provide funding ("Small, vulnerable—and disunited", August 11th). The recent Puebla-Panama project proposed by Mexico's president, Vicente Fox, is a good example. It is unlikely that the funding for this will be achieved, and even if it is, it cuts across several existing proposals for Central America's long-term development.

That is why our "Central America 2020" report emphasised the need for a monetary union to be backed by the dollar or a Central American currency at par with the dollar. Such a union would have implications for the integration of the service sectors, particularly financial services, and great benefits in terms of competition.

You do not refer to the Free-Trade Area of the Americas (FTAA) in which all seven Central American countries participate on an individual basis. Monetary union would, in effect, force them to negotiate as a block within the FTAA and make it more likely that the special concerns of small and vulnerable countries will be reflected in the final treaty.

Victor Bulmer-Thomas
Director, Royal Institute of International Affairs
London

SIR – Your description of John Lloyd Stephens's 1839 diplomatic mission to find the government of the Central American Republic is incorrect. In fact, the United States established diplomatic relations with the Central American Republic in 1825 with the appointment of a chargé d'affaires. Stephens was a "special confidential agent" appointed by President Martin Van Buren for the purposes of closing our legation in Guatemala city "without giving offence"; securing the republic's ratification of a long-pending treaty of peace, amity, commerce and navigation; and advising the Central American government that we were suspending, but not abandoning, various American citizen claims against that government. While Stephens eventually met the president and other senior officials, he rightfully concluded that with four of the five provinces having declared their independence, the republic had ceased to exist. Hence, he was unable to fulfil his instructions and turned his full attention to archaeological exploration.

Jack Binns
Tucson, Arizona

Aiming for stability

SIR – It is sad to see *The Economist* question the virtue of sound public finances ("Scrap the stability pact", August 25th). To advocate discretionary fiscal policy to fine-tune an economy is a recipe that hardly ever worked in the past and is largely responsible for the high level of public debt in many countries. It is this debt, as well as the ageing of the population and the unfunded future pension liabilities, that has convinced all finance ministers in the euro area to aim for balanced budgets over a cycle. The Stability and Growth Pact helps them do their job.

Does the pact put too much emphasis on discipline and not enough on fiscal stabilisation? No, automatic stabilisers are an integral part of it. It is by the requirement to maintain sound public finances in good times that room is created for automatic stabilisers to operate in bad times. That is what the European Commission is arguing for. Of course, countries that do not yet have sufficiently low deficits should not let automatic stabilisers work fully unless there is a serious recession—which fortunately we do not have in Europe—otherwise they will never reach the objective for which they aim.

Does the pact imply an unduly restrictive fiscal stance in the current slowdown, as you suggest? No. In the fiscal year of 2001, policies as outlined in the stability programmes will be mildly expansionary even if automatic stabilisers do not work fully in all euro-area countries. Because of discretionary tax cuts earlier this year, the area-wide budget deficit will increase in both actual and structural terms for the first

time since 1993. Is that “1930s-style self-flagellation”?

Scrapping a budgetary framework which in recent years has helped countries cut deficits, reduce public debt, decrease the tax burden and prepare euro-area economies for the challenges of the future, would make it impossible to co-ordinate our economic policies in the face of a single monetary policy.

Pedro Solbes
EU commissioner for economic and monetary affairs
Brussels

African-American victims

SIR – You are right to highlight the need for a new crop of African-American leaders (“Time to pass on the torch”, August 18th). Al Sharpton, Jesse Jackson and their ilk have little to offer African-Americans in the 21st century. They continue to peddle a misguided and dangerous message of victimisation. It is of course in their interest to do so. If African-Americans perceive themselves as victims, they will embrace public leaders like Mr Sharpton and Mr Jackson, no matter how inept, who purport to be able to protect them from the oppression of man (ie, white America). And, as long as Mr Jackson and company can successfully portray African-Americans as victims to the public at large, they will be able to wring monetary concessions out of corporate America.

Many professional African-Americans, like me, refuse to consider themselves victims. And the paradigm is dangerous for at least two reasons. First, it depends upon the maintenance of the socially-constructed colour line; in the mind of the public, the victim beneficiaries must be readily identifiable. But the noble vision of the civil-rights movement of the 1960s was to create an American society in which race does not occupy the pre-eminent place in one's identity. Second, the paradigm diverts the attention of some African-Americans from policy options that may have a positive impact on their lives, such as school vouchers.

Jerome Holmes
Oklahoma City

Off the rails

SIR – Your article on the Midwest Regional Rail Initiative recommends that Amtrak should talk to the French (“Trop peu, trop tard, trop Amtrak”, August 11th). SNCF certainly runs some fast trains, but in every other respect it is an unsuitable model for the mid-west. Amtrak would do better to study a rail system that has to compete with toll-free roads, long-distance bus services, cut-price internal airlines, and where private companies have successfully grown passenger traffic on existing infrastructure despite all adversities and a hostile press. Any nominations?

Nick Thompson
Cambridge

SIR – Your pessimism about Amtrak and high-speed rail in the mid-west may have superficial justification, but your facts are incomplete. You say that the proposed rail system will break even at best, without pointing out that the United States currently subsidises automobile transport at the level of $5,000 a car per year. The preferred alternative does not come close to covering operating costs, before even considering social issues or global warming.

Thomas Martin
Austin, Texas

Must try harder

SIR – In grading George Bush's first six months, you are guilty of both lowered expectations as well as grade inflation. Should we be willing to settle for a president whose marks include 2 Cs and a D? My parents would not have been happy if I had brought home grades like that.

Gary Bates
Boulder, Colorado

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Brands

Who's wearing the trousers?

Sep 6th 2001
From The Economist print edition

It is claimed that consumers are being manipulated by big corporations and their brands. Quite the contrary

BRANDS are in the dock, accused of all sorts of mischief, from threatening our health and destroying our environment to corrupting our children. Brands are so powerful, it is alleged, that they seduce us to look alike, eat alike and be alike. At the same time, they are spiritually empty, gradually (and almost subliminally) undermining our moral values.

This grim picture has been popularised by a glut of anti-branding books, ranging from Eric Schlosser's “Fast Food Nation” and Robert Frank's “Luxury Fever” to “The World is Not for Sale” by François Dufour and José Bové—a French farmer who is best known for vandalising a McDonald's restaurant. The argument has, however, been most forcefully articulated in Naomi Klein's book “No Logo: Taking Aim at the Brand Bullies”.

Not since Vance Packard's 1957 classic “The Hidden Persuaders” has one book stirred up so much antipathy to marketing. Its author has become the spokesman for a worldwide movement against multinationals and their insidious brands. Britain's *Times* newspaper rated her one of the world's most influential people under 35. Published in at least seven languages, “No Logo” has touched a universal nerve.

Its argument runs something like this. In the new global economy, brands represent a huge portion of the value of a company and, increasingly, its biggest source of profits. So companies are switching from producing products to marketing aspirations, images and lifestyles. They are trying to become weightless, shedding physical assets by shifting production from their own factories in the first world to other people's in the third.

These image mongers offer “a Barbie world for adults” says Ms Klein, integrating their brands so fully into our lives that they cocoon us in a “brandscape”. No space is untouched: schools, sports stars and even youth identity are all being co-opted by brands. “Powerful brands no longer just advertise in a magazine, they control its content,” says Ms Klein.

Now they are the target of a backlash. A new generation of activists is rising up and attacking, not governments or ideologies but brands, directly and often violently. Coca-Cola, Wal-Mart and McDonald's have been rounded on over issues ranging from racism to child labour to advertising in schools.

Less a product, more a way of life

In one sense it is easy to understand why Ms Klein and her camp feel as they do. The word “brand” is everywhere, to the point where Disney chairman Michael Eisner calls the term “overused, sterile and unimaginative”. Products, people, countries and companies are all racing to turn themselves into brands—to make their image more likeable and understandable. British Airways did it. Target and Tesco are doing it, while people from Martha Stewart to Madonna are branding themselves. Britain tried to become a brand with its “Cool Britannia” slogan, and Wally Olins, a corporate-identity consultant and co-founder of Wolff Olins, a consultancy, even wants to have a crack at branding the European Union.

At the very least, Ms Klein overstates the case. Brands are not as powerful as their opponents allege, nor is the public as easily manipulated. The reality is more complicated. Indeed, many of the established brands that top the league tables are in trouble, losing customer loyalty and value. Annual tables of the world's top ten brands used to change very little from year to year. Names such as Kellogg's, Kodak, Marlboro and Nescafé appeared with almost monotonous regularity. Now, none of these names is in the top ten. Kellogg's, second less than a decade ago, languishes at 39th in the latest league table produced by Interbrand, a brand consultancy.

Of the 74 brands that appear in the top 100 rankings in both of the past two years, 41 declined in value between 2000 and 2001, while the combined value of the 74 fell by $49 billion—to an estimated $852 billion, a drop of more than 5%. Brands fall from grace and newer, nimbler ones replace them.

Meanwhile, consumers have become more fickle. A study of American lifestyles by DDB, an advertising agency, found that the percentage of consumers between the ages of 20 and 29 who said that they stuck to well-known brands fell from 66% in 1975 to 59% in 2000. The bigger surprise, though, was that the percentage in the 60-69 age bracket who said that they remained loyal to well-known brands fell over the same period, from 86% to 59%. It is not only the young who flit from brand to brand. Every age group, it seems, is more or less equally disloyal. The result is that many of the world's biggest brands are struggling. If they are making more and more noise, it is out of desperation.

As they move from merely validating products to encapsulating whole lifestyles, brands are evolving a growing social dimension. In the developed world, they are seen by some to have expanded into the vacuum left by the decline of organised religion. But this has made brands—and the multinationals that are increasingly identified with them—not more powerful, but more vulnerable. Consumers will tolerate a lousy product for far longer than they will tolerate a lousy lifestyle.

Brands past

Historically, building a brand was rather simple. A logo was a straightforward guarantee of quality and consistency, or it was a signal that a product was something new. For that, consumers were, quite rationally, prepared to pay a premium. “Brands were the first piece of consumer protection,” says Jeremy Bullmore, a long-time director of J. Walter Thompson, an advertising agency. “You knew where to go if you had a complaint.” Even the central planners in the old Soviet Union had to establish “production marks” to stop manufacturers cutting corners on quality.

Brands also helped consumers to buy efficiently. As Unilever's chairman Niall FitzGerald points out: “A brand is a storehouse of trust. That matters more and more as choices multiply. People want to simplify their lives.”

AP

This implicit trade-off was efficient and profitable for companies too. Building a brand nationally required little more than an occasional advertisement on a handful of television or radio stations showing how the product tasted better or drove faster. There was little regulation. It was easy for brands such as Coca-Cola, Kodak and Marlboro to become hugely powerful. Because shopping was still a local business and competition limited, a successful brand could maintain its lead and high prices for years. A strong brand acted as an effective barrier to entry for others.

In western markets, over time, brand building became much

trickier. As standards of manufacturing rose, it became harder for firms to differentiate on quality alone and so to charge a premium price. This was particularly true of packaged goods like food: branded manufacturers lost market share to retailers' own brands, which consumers learned to trust.

Nor were traditional branded products any longer the only choice in town. As shoppers became more mobile and discovered more places to buy, including online websites, they switched products more often. Brands now face competition from the most unexpected quarters, says Rita Clifton, chief executive of Interbrand: “If you were a soap-powder company years ago, your competition would come from the same industry and probably the same country. Now it could be anyone. Who'd have thought that Virgin would sell mobile phones, Versace run hotels or Tesco sell banking services?”

Even the strongest brands can crumble

Even truly innovative products can no longer expect to keep the market to themselves for long. Gillette spent $750m and seven years developing its three-bladed Mach 3 men's razor, for which it charged a fat premium. But only months later it was trumped by Asda, a British supermarket that came out with its own version for a fraction of the price.

Consumers are now bombarded with choices. They are “commercials veterans”, inundated with up to 1,500 pitches a day. Far from being gullible and easily manipulated, they are cynical about marketing and less responsive to entreaties to buy. “Consumers are like roaches,” say Jonathan Bond and Richard Kirshenbaum in their book “Under the Radar—Talking to Today's Cynical Consumer”. “We spray them with marketing, and for a time it works. Then, inevitably, they develop an immunity, a resistance.”

Some of the most cynical consumers, say the authors, are the young. Nearly half of all American college students have taken marketing courses and “know the enemy”. For them, “shooting down advertising has become a kind of sport.”

Consumers are also harder to reach. They are busier, more distracted and have more media to choose from. And they lead lives that are more complicated and less predictable. A detergent can no longer count on its core consumer being a white housewife. Against this background, it has never been harder to develop or even just sustain a brand. Coca-Cola, Gillette and Nike are prominent examples of the many that are struggling to increase volumes, raise prices and boost margins.

Marketing mistakes

Marketers have to take some of the blame. While consumers have changed beyond recognition, marketing has not. Elliott Ettenberg, author of a forthcoming book on the decline of marketing says: “Everything else has been reinvented—distribution, new product development, the supply chain. But marketing is stuck in the past.” Even in America, home to nine of the world's ten most valuable brands, it can be a shockingly old-fashioned business. Marketing theory is still largely based on the days when Procter & Gamble's brands dominated America, and its advertising agencies wrote the rules. Those rules focused on the product and where to sell it, not the customer.

The new marketing approach is to build a brand not a product—to sell a lifestyle or a personality, to appeal to emotions. But this requires a far greater understanding of human psychology. It is a much harder task than describing the virtues of a product.

Sweden's Absolut Vodka, one of the world's biggest spirits brands, demonstrates this well. Its clever, simple ads featuring its now famous clear bottle were dreamt up long before the vodka was fermented. Goran Lundqvist, the company's president, says that Absolut's wit, rather than its taste, is the reason for the spirit's success: “Absolut is a personality,” he claims. “We like certain people, but some people are just more fun and interesting.” Other products have also succeeded in touching the emotions. Fans of Ben & Jerry's ice cream, for example, think that it is hip for its ethical stance, while many Harley Davidson owners are literally in love with their machines.

The trouble is that most marketers have to struggle to create such feelings for their brands. Many firms, most notably banks, mistake inertia for liking. Others, such as Coca-Cola and McDonald's, complacent

from past success, find it difficult to admit that their customers are drifting away to newer offerings. Yet others, panicking that they need to do something, reinvent themselves and unwittingly lose the essence of their appeal. Old-fashioned market-research methods help explain such mistakes. Focus groups, for example, are poor at rooting out the real reasons why people like brands, but they are still heavily used.

The attempt by brands to adopt a social component—to embrace a lifestyle—is giving consumers a lever to influence the behaviour of the companies that stand behind them. The “No Logo” proponents are correct that brands are a conduit through which influence flows between companies and consumers. But far more often, it is consumers that dictate to companies and ultimately decide their fate, rather than the other way round. Think of the failure of such high-profile product launches as “New Coke”; the disastrous effect on Hoover of a badly-designed sales promotion in Britain a few years ago; or the boycott of genetically modified foods by Europe's consumers.

Reuters

Can a billion buyers be bamboozled?

The Internet also provides some telling examples. Dotcoms such as Webvan and Kozmo were lauded for the speed with which they built their brands. Unconstrained by the need to make profits, however, such companies built customer loyalty artificially. Once business reality returned, they were revealed as unsustainable promises. Consumers, it turned out, were not gullible. As Mr Olins says: “Is the brand immoral, can it get us to do things we don't want to? No. When we like a brand we manifest our loyalty in cash. If we don't like it, we walk away. Customers are in charge.”

Levers for lifting standards

The truth is that people like brands. They not only simplify choices and guarantee quality, but they add fun and interest. “In technocratic and colourless times, brands bring warmth, familiarity and trust,” says Peter Brabeck, boss of Nestlé. They also have a cultish quality that creates a sense of belonging. “In an irreligious world, brands provide us with beliefs,” says Mr Olins. “They define who we are and signal our affiliations.”

Jim McDowell, head of marketing at BMW North America, says that when young people visit a 3Com-sponsored baseball stadium or a Continental Airlines' hockey arena, they realise that “some of the best things they have ever experienced have come through brands.”

Since brands and their corporate parents are becoming ever more entwined—both in the public perception and commercial reality—it follows that consumers can increasingly influence the behaviour of companies. Arrogance, greed and hypocrisy are swiftly punished. Popular outrage forced Shell to retreat over the scrapping of its Brent Spar oil platform and its activities in Nigeria. Nike has had to revamp its whole supply chain after being accused of running sweatshops.

Even mighty Coca-Cola has been humbled. Told of a contamination incident in Belgium, its then-boss, Doug Ivester, is said to have dismissed it with the comment: “Where the fuck is Belgium?” A few months later, after a mishandled public-relations exercise that cost Coke sales across Europe, he was fired. “It is absurd to say that brands can be too powerful,” concludes Interbrand's Ms Clifton. “Brands are the ultimate accountable institution. If people fall out of love with your brand, you go out of business.”

AP

Cheer up. It can't last

This ultimately makes brands highly effective tools through which to bring about change. Rafael Gomez, professor of marketing at the London School of Economics, points out that companies like Nike have been forced to invest heavily in improving their manufacturing standards in order to protect their brands. World Bank studies show that brands have been a boon for developing economies, because it is the branded multinationals that pay the best wages and have the best working conditions. Those countries that are more open to trade and foreign investment, such as the Asian tigers, have shown faster increases in living standards than relatively closed countries such as much of Africa.

Brands of the future will have to stand not only for product quality and a desirable image. They will also

have to signal something wholesome about the company behind the brand. “The next big thing in brands is social responsibility,” says Mr Olins, “It will be clever to say there is nothing different about our product or price, but we behave well.” Far from being evil, brands are becoming an effective weapon for holding even the largest global corporations to account. If we do not use them for that purpose, as Mr Olins puts it, “we are lazy and indifferent and we deserve what we get.”

Fittingly, brands will then have come full circle. The founders of some of the world's oldest—Hershey, Disney, Cadbury and Boots, for example—devoted their lives and company profits to social improvements, to building spacious towns, better schools and bigger hospitals. The difference in the future will be that it will be consumers, not philanthropists, who will dictate the social agenda.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The president and Congress

A recipe for indigestion

Sep 6th 2001 | WASHINGTON, DC
From The Economist print edition

Reuters

The constructive bit of George Bush's presidency may be over already. But that does not make him a failure

GEORGE BUSH is in for a long, hot fall—fall, as in autumn, fall as in decline. As Congress reconvened this week, it set out the table for a debate over the vanished budget surplus and, by extension, Mr Bush's presidency. From his perspective, it is an unappealing menu.

Appetiser: education. The House of Representatives and the Senate have passed versions of his education-reform bill which no one in the White House likes. Congress is preparing to fillet it further by permitting states to test pupils so differently that it will be impossible to make sensible national comparisons. That would undermine attempts to hold schools accountable for performance—the main point of Mr Bush's original proposal.

Starter: the patients' bill of rights. The House and Senate have passed different versions of bills allowing people to sue health-care providers. The House version (in line with Mr Bush's own proposal) is the more restrictive—making Democratic attacks on it certain when the bills come to be reconciled.

Main course: the budget. The surplus has melted, so the traditionally sharper arguments that go with the politics of deficits have returned. With three weeks left of the fiscal year, none of the 13 spending bills that make up the annual budget has been sent to Mr Bush for his signature.

Pudding: defence reform. Don Rumsfeld's plans for a fundamental restructuring of America's armed forces for the post-cold-war era have run into even more opposition from the Pentagon than expected. In any case, there is not enough money left in the budget for the big spending required to make such a reform slip down.

Savoury: Social Security. Mr Bush has asked a commission on privatising parts of the pensions system to report back by the autumn. With the stockmarket and the economy both in the dumps, this does not look like the ideal time to recommend investing retirement dollars in the markets.

Too ambitious, too soon?

This diet is certainly very different from Mr Bush's experience as governor of Texas. There he was able to concentrate on a narrow range of issues where he could make a difference. Mr Bush's supporters argued

that he would be able to do something similar as president. In reality, that was never possible. Presidents always have a lot on their plate. The real question is whether this stack of problems—and the probability of failure in several cases—reflects badly on his performance so far.

Tom Mann of the Brookings Institution argues that it does. Mr Mann traces many of the problems back to a fundamental choice Mr Bush made at the start of his presidency. Rather than respond to the tied election by moderating his campaign promises, Mr Bush tried to govern as if he had a mandate. He pushed not just his big tax cut and education reform (on which he had campaigned hard) but also policies which he probably did not need to promote so early, such as an energy package and Social Security reform. Mr Mann suggests the downturn in the economy, which has eroded his political capital, has left Mr Bush struggling with an agenda that is too ambitious and controversial for his dwindling authority.

David Broder of the *Washington Post* points out that Bill Clinton faced much the same problem at this stage in his presidency. Having pushed through his own tax bill in the first months of his term (in that case, a rise), Mr Clinton in September 1993 presented Congress with Hillarycare, NAFTA and “reinventing government” simultaneously. The free-trade act squeaked through, but health care was a debacle which contributed to the Democrats' immolation in the 1994 mid-term elections.

Mr Bush's position is in some ways worse. Mr Clinton at least won a plurality of the vote. And the economy was growing in 1992-94. If the economy continues to stall, Mr Bush will not only get blamed for it (as all presidents do), but will be vulnerable to the Democrats' charge that he has wasted the budget surplus. This year, according to the Congressional Budget Office, Mr Bush has been forced to break his promise not to dip into the surpluses accumulating in the Social Security trust fund to finance general government spending. Now he may lack the authority to stop Congress spending even more in the 2002 budget that is now being drawn up; so, unless revenues bounce back, he will have to go further into the red next year.

Economically, a budget deficit might well be sensible. Politically, it would be awkward. The Democrats, who control the Senate, should get some of the blame for overspending. But voters will recall that Mr Bush claimed that he could pay his tax cut and balance the books. In all probability, Mr Bush will oversee an expansion of the deficit for at least two years.

Electorally, Mr Bush may also be seeing the first signs of that reversal of fortune at lower levels of government that seems to affect all occupants of the White House these days. Despite decades of Republican gains in the south, the Democratic candidate is surprisingly ahead in the race to be governor of Virginia (see article). The Democrats also think they will pick up the governorship of New Jersey and the mayoralty of New York (see article).

Next year looks no better. This week, Phil Gramm of Texas became the third Republican senator from the south to announce his retirement in 2002, with two more thinking about it (Pete Domenici of New Mexico and Fred Thompson of Tennessee). Even if the Republicans manage to hold on to all five next year, it will cost them time and money in a contest where they are defending 20 Senate seats to the Democrats' 13. In other words, the conditions seem to be falling into place for a mid-term reversal which, though unlikely to be on the scale of 1994, could still be embarrassing for Mr Bush.

Still a contender

Yet even if these gloomy prognostications come true, would this amount to a political failure? Mr Bush's three most ambitious plans—reforms of education, Social Security and defence—might be thwarted. But he could well get a patients' bill of rights and an education bill (even in a mangled form). Add that to his tax cut, and he will have had a productive first year in office by normal presidential standards.

Imagine for a minute that Al Gore had won the presidency. The economy would still be flirting with recession. There would still have been a tax cut this year (this year's tax rebates were Democratic additions to the president's tax proposals). Congress would almost certainly be planning to spend more, just as it did under Mr Clinton. In other words, under a putative President Gore, the economy would be no different and the budget surplus would be vanishing just as fast has it has done under the real President Bush.

At least some of his problems, in other words, have nothing to do with his agenda, and everything to do with the nature of America's political system at a time of party parity. As Mr Clinton found, this often

forces the president onto the defensive, vetoing this bill, heading off that. And, as Mr Clinton also found, such a role in no way hampers you from winning re-election with an increased majority.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The race to replace Rudy Giuliani

Hey, you: I'm talking to you...

Sep 6th 2001 | NEW YORK
From The Economist print edition

But is anybody really listening to the current mayoral candidates?

AP

Bloomberg is hungry

THE transformation of Sodom-on-the-Hudson into one of the world's safest and orderly cities, all in under eight years, would not have happened without Rudy Giuliani. Despite his recent mishaps, the mayor of New York city, at times through the sheer force of one of the most bloody-minded personalities in politics, challenged the widely-held belief that his fief was ungovernable.

The race to replace the term-limited Mr Giuliani reaches a decisive stage with the Democratic and Republican primaries on September 11th. So far, the contest has generated less interest than Mr Giuliani's legal battle with his wife over his right to bring a mistress into Gracie Mansion, the mayor's official residence. Which is remarkable, since not even Mr Giuliani would claim that his miracle is complete (look at the city's wretched schools) or permanent.

Of the six serious candidates to be the next Hizzoner, only one can plausibly claim to be made of similar stuff to Mr Giuliani, and his chances look non-existent. Herman Badillo, a Latino Republican, has fought alongside the mayor in many of his biggest battles (especially in education). But he is in his seventies, and the Republican Party has lined up behind Michael Bloomberg, a media tycoon who has already spent $20m of his own money to get himself known by the electorate.

Mr Bloomberg, to be fair, has shown that he is more than just a wealthy face. He acquitted himself respectably in a debate, neatly putting Mr Badillo on the spot with a surprise offer of a top job in a Bloomberg administration. His many and vacuous position papers show he is putting in effort, but he has hardly made a convincing case that he is a true heir to Mr Giuliani. He changed sides from the Democrats only last year, and his failure to embrace tax-cutting with any enthusiasm might annoy the tiny Republican primary electorate.

If Mr Bloomberg jumps that hurdle, as he probably will, his Democratic roots may be more helpful. Registered Democrats far outnumber Republicans. Mr Giuliani was elected only because things had got so bad under his Democratic opponent, David Dinkins, New York's first black mayor. Most of the commentariat assume a Democrat will win this time.

The Democrat with the strongest case for being Mr Giuliani's natural successor is Peter Vallone, the speaker of the city council. He delivered crucial votes for the mayor in the Democrat-controlled council, something that required plenty of political courage. The two men are close, not least because of a shared Catholic faith. Mr Vallone has won the support of the city's two main tabloids, the *New York Post* and the *Daily News*. But it is not clear that he shares Mr Giuliani's personal drive or ruthlessness. Mayor Vallone might well be absorbed into a soggy Democratic consensus, rather than leading it in the direction he privately knows to be best.

Opinion polls suggest that he is unlikely to get the chance. One this week from Quinnipiac University gave Mr Valone 15% of the likely Democratic voters—the same as the city comptroller, Alan Hevesi. Mr Hevesi has run an awful campaign. He appeared to pander to black voters by supporting compensation for descendants of slaves—only later to downgrade this promise to a slavery museum. And he has been damaged by an attack on his ethics from Mr Giuliani (who, characteristically, has not let the mere fact he is not running keep him out of a good scrap). Even if he loses the primary, Mr Hevesi may yet run on the Liberal Party ticket in the election on November 6th.

The same poll was the first to put Freddie Ferrer, the Bronx borough president, in the lead with 28%, a fraction ahead of the favourite, Mark Green, the city's public advocate. Mr Ferrer has been buoyed by endorsements from several unions, a crucial source of votes in primaries. More important, he has the active support of the Reverend Al Sharpton, a notorious rabble-rouser and recently announced presidential candidate. If Mr Sharpton can achieve the rare feat of swinging the city's large African-American vote behind a Latino candidate, Mr Ferrer will owe him mightily.

For his part, Mr Green is hoping his own endorsement by Mr Dinkins will swing the black vote his way. A veteran doyen of trendy leftish causes, Mr Green won the support of the *New York Times* and, less predictably, that of William Bratton, Mr Giuliani's first police commissioner, who introduced many of the reforms that made the city safer before he fell out with the mayor. Until recently, Mr Green's rather rapid conversion into a tough crime-fighter looked a masterstroke, but Mr Ferrer has skilfully used the unpopularity of the NYPD amongst minorities as a baton with which to clobber Mr Green.

The polling predictions are all subject to the level of turnout. It looks unlikely that any Democrat will pass the 40% mark needed to secure outright victory next week, thus forcing the top two into a run-off election on September 25th. But a victory by Mr Ferrer, whose campaign has been described as “class war” by Ed Koch, another outspoken former mayor, would surely give Mr Bloomberg a real chance of being New York's next first citizen.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Congressional redistricting

Condit gets the finger

Sep 6th 2001 | SAN FRANCISCO
From The Economist print edition

Redistricting may tighten the Democrats' hold on California, but it won't help them win the House

Reuters

Time to disappear?

THIS was not a moment for taking chances. On August 31st, the California state legislature released a map of congressional districts with new boundaries drawn to reflect changes in the population between 1990 and 2000, the last two census years. Usually, such occasions produce an orgy of intricate gerrymandering to the advantage of the party in charge. This time, the Democrats who control the legislature chose to play safe. Their redrawn map bolsters incumbents of both parties, rather than trying to weaken Republicans.

In part the caution was a reaction to the disgrace of their colleague Gary Condit, the Ceres sex-bomb, whose recent TV interviews have only deepened the murk around him. Mr Condit represents the 18th district in the Central Valley, which might therefore have become vulnerable to a Republican takeover. But the new map also reflects compromises between the Democrats' short- and long-term ambitions.

Perversely, the best way to get rid of Mr Condit, as most other Democrats would now like to do, is to make his district more Democratic, not less. Mr Condit is conservative, in tune with the farmers of the Central Valley but often at odds with other Democrats—and thus vulnerable to a liberal challenge from within his own party. The new map lops off the rural southern end of his district and extends a wavering finger northward to encircle Stockton, a city with a large, liberal population of commuters to Silicon Valley. (“Condit gets the finger,” as one pundit says.)

If Mr Condit steps down, the new seat is now safely Democratic. If he refuses to go quietly, another Democrat could probably beat him in a primary in March. Voter registration in the old district ran 46% Democratic to 39% Republican; the new configuration is 52% to 35%. A third of the registered Democrats, whose votes decide the primary, have never been represented by Mr Condit and will feel no urge to temper their disgust with loyalty.

Now comes the complicated bit. Those conservative voters carved away from Mr Condit's district should help ensure that a new district created to accommodate population growth in the Central Valley will probably be Republican. But the Democratic map-makers have balanced that by labelling the new district the 38th and doing away with the old 38th, a narrowly Republican seat in Long Beach. In place of the old 38th, they have created the completely new 53rd district, a meandering U-shaped creature that arcs past south-central Los Angeles and is meant to produce a Latino Democratic congressman. Steve Horn, the Republican who won the old 38th by a whisker last year, this week announced he would not run for it.

This should produce a net gain of one seat for the Democrats, and leave the Republicans with their present 20 seats, thereby

ensuring their approval for the plan. National Democrats are disappointed. They had hoped that California might do more to close the gap of six seats by which they lag the Republicans in the House of Representatives. But John Burton, the leader of the California state Senate, who oversaw the redistricting, argued that it was better to consolidate the four marginal seats gained by California Democrats in 2000 than to aim for further gains in 2002 that could not be held in 2004.

The other group who are annoyed are Latinos. The new 53rd district, argue activists, does not hide the fact that the new map mostly protects incumbents. Latinos make up 32% of the population and 16% of the registered voters in California. In the state Assembly, where term limits ensure rapid turnover, they account for 24% of delegates. But they make up only 12% of the congressional delegation in Washington, where members can stick around for a long time. For example, state representatives from the San Fernando Valley, the increasingly Latino northern section of Los Angeles, are mostly Latino, but the congressman, Howard Berman, who is well entrenched after ten terms in Washington, is Jewish and white.

Irritated Latino activists are unlikely to shift him, however. Mr Berman, a staunch supporter of farm workers' and immigrants' rights, is well liked by most of his constituents. He is also, conveniently enough, the brother of the consultant who helped Mr Burton design the new boundaries up in Sacramento.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Florida governor's race

Enter Ms Reno

Sep 6th 2001 | MIAMI
From The Economist print edition

A no-nonsense candidacy and a hard race ahead of her

AP

That young Bush in the corner needs pruning

SHE is 63 and suffers from Parkinson's disease; but Janet Reno, Bill Clinton's attorney-general, says she has what it takes to become the first woman governor of Florida. It will take a lot, since she will have to unseat a well-entrenched incumbent, Jeb Bush, who just happens to be the president's younger brother.

Ms Reno, notably dry and blunt in office, is an unknown quantity when it comes to campaigning. She won election five times as a prosecutor in Miami, but she has never run for statewide office. She is also unpredictable. After returning from Washington to Miami, her home town, earlier this year, she moved back into the cypress-wood and adobe house her mother built in the late 1940s. She then spent three months touring the state in a bright red pick-up truck, feeling out voters.

Ms Reno's image as a grandmotherly straight-shooter, together with good name-recognition, should win her the Democratic primary next year in a crowded field which includes two former congressmen. The only one expected to give her a fight is Pete Peterson, who used to represent a district in the Panhandle, the conservative northern part of the state. Some Democrats believe that Mr Peterson, a Vietnam veteran who subsequently became ambassador to that country, has a better chance against Mr Bush.

But Mr Bush will be hard to beat. A Mason-Dixon poll in late July found that Ms Reno would lose to Mr Bush in an election by 54% to 39%. Although no Republican governor has been re-elected in Florida, and only two Republicans have ever been elected to the job, the party remains strong there. The Republicans won the state legislature in 1996 for the first time that century, and hold big majorities in both houses. Despite the bitterness of the presidential election, Mr Bush is reasonably popular.

Ms Reno and Mr Bush have one thing in common. Both call Miami home, although only Ms Reno grew up there. Republicans will hope for a strong turnout from Cuban-American voters in south Florida, who have not forgiven Ms Reno for ordering an FBI raid to seize Elian Gonzalez, the Cuban raft-boy, from the house of his Miami relatives last year. But Cuban-Americans make up only 6-7% of the state vote.

Democrats will be hoping for a large turnout of blacks, who make up 12% of the state's voters, and Jews, who account for another 10%. Both have axes to grind with Mr Bush. The Jewish community is still smarting about the Palm Beach farce in last November's election, while blacks are especially upset about Mr Bush's decision to scrap affirmative action in the state.

Ms Reno has declared that she intends to make education one of her top campaign issues, along with protection of the elderly and the environment. On the last, Mr Bush has good credentials. He recently stood up to his brother over new oil drilling in the Gulf of Mexico, winning a compromise agreement that he says will protect Florida's shoreline. But Ms Reno's personal battle with Parkinson's makes her a natural choice for the state's old folk. She says her doctors have told her the disease should not affect her ability to govern—if she can get that far.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD UNITED STATES
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The Virginia governor's race

The Earley bird gets caught

Sep 6th 2001 | RICHMOND
From The Economist print edition

The contest to succeed Jim Gilmore will get closer and ever more brutal

GEORGE BUSH may spend quite a lot of the autumn popping backwards and forwards across the Potomac river. Virginia is one of two states that are electing governors this year (the other is New Jersey). In a close race with a wobbly Republican candidate, the president's popularity in the state, which he won with 52% of the vote last year, is certainly needed.

In theory, the Republicans should be well placed. The retiring governor, Jim Gilmore, who is now head of the Republican National Committee, rolled home in 1997 with 56% of the vote. They control the statehouse and all the statewide offices. They picked up a Senate seat last year, when George Allen, a former governor, beat Chuck Robb, and a congressional seat in a closely watched special election earlier this summer.

But the state's once-vibrant economy has slowed to a crawl. The information-technology industry, based largely in the Washington suburbs, is in trouble. With revenues to the state treasury down sharply, Mr Gilmore has trimmed spending (largely in order to maintain his pledge to phase out car taxes). Universities, social services and various cultural attractions all face cutbacks—and some 200,000 public employees who aren't getting pay rises are unhappy.

The state's Republicans are split over the decision on car taxes. The spending choice was left to Mr Gilmore, because the legislature, for the first time in Virginia's history, failed to agree on a budget this year. That drew attention to other mishaps: persistent delays in road construction, ghastly gaps in care for the mentally ill, and episodes of apparent political cronyism. The Republicans are still trying to explain how one of their General Assembly candidates won a $400,000 state-tourism contract, and why a $70m trust fund to help handicapped children was transferred to an investment office run by a Republican legislator.

Meanwhile, the Republican nominee, Mark Earley, a former missionary and anti-abortionist, has problems of his own. His conservatism, staunch even by Virginian standards, puts off many businessmen and Republican-minded women. He has tried to soften his tone, but he has not been helped by the Republican nominee for lieutenant-governor, Jay Katzen, who wants a straight ban on abortions, a prohibition of same-sex marriage and a roll-back of Virginia's restrictions on hand-gun purchases (which Mr Earley supported).

The fact that Mr Earley looks a bit of a political punchbag explains why his Democratic opponent, Mark Warner, has opened up a big lead. The latest *Washington Post* poll shows he is 14 percentage points ahead among registered voters and 11 points ahead amongst those likely to vote. But the same poll, taken at the end of last month, also showed that voters barely know either of the candidates—hardly great news for Mr Warner, who has already spent several million dollars running ads pretty much unopposed.

Mr Warner, who ran unsuccessfully for the federal Senate against his Republican namesake, John, in 1996, has yet to explain why he would be any better than Mr Earley. He has never held elective office, whereas Mr Earley is a former attorney-general and state senator. His main claim to fame, his $200m fortune, accumulated through shrewd early investments in high-tech companies, looks less glamorous since the collapse of many such firms shook the local economy. Mr Earley is now running as a slightly unlikely Everyman, distributing a bumper sticker that reads “Vote for the Mark with the mortgage.”

The Democrats have also given Mr Warner some unappetising running-mates. For lieutenant-governor they chose Timothy Kaine, the mayor of Richmond, a city with an almost comical history of

mismanagement, and for attorney-general Donald McEachin, who is a personal-injury lawyer (and thus loathed by many businessmen). Mr Warner has already broken with his running-mates over their support for tougher gun laws and a moratorium on the death penalty.

Both sides expect the race to be close. Given their current lead, the Democrats, desperate to prove that they are still a force after eight years of statewide losses, will be furious if they lose. Though many still have doubts about Mr Warner as a candidate, they are reassured by his money. The last official figures, from early August, show that he had $3m cash in hand, against Mr Earley's $1m. The Republican's treasury should gain from imminent fund-raisers featuring Mr Bush and Dick Cheney, but Mr Warner, who spent $10m on his 1996 campaign, will surely outgun him.

On the other hand the Republicans, eager to recover from the state-budget debacle, also have something to prove. Mr Gilmore, in particular, is keen to demonstrate his clout to Mr Bush's inner circle, which is said to be underwhelmed by his performance as chairman of the national Republican Party. And of course there is Mr Bush himself. If the president cannot wield some clout in a conservative state within easy range of the White House, the Republicans have a problem that stretches much farther than the Blue Ridge Mountains.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Endangered species

Crying wolf, very loudly

Sep 6th 2001
From The Economist print edition

New weapons in the war between wolves and ranchers: poison and noise

THIS summer, wolves in the Rocky Mountains have had a new and noisy set of protectors. A group of Wolf Guardians has been camping near livestock flocks in Idaho and Montana. At the first sign of wolves they start screaming, shouting, and banging pots. The guardians have been recruited by the Defenders of Wildlife, a conservation group, to assuage the fears of farmers that their sheep and calves will be gobbled up by the grey peril.

Meanwhile, the federal government's Fish & Wildlife Service (FWS) is making its own contribution to the hullabaloo. It is installing new stationary devices which start blasting out noises terrifying to lupines—from sirens and helicopters to running horses—whenever a wolf strolls dangerously close to sheep. The device can detect some of the wolves because they have radio collars.

And so continues the bizarre long-running case of *Ranchers & Sheep v Wolves & Greens.* In 1995-96, the FWS reintroduced about 35 grey wolves, which are classified as an endangered species, in central Idaho. Ranchers, who have lost about 150 sheep and 50 calves to wolves over the past few years, do not like them much. Hunters also fume that the wolves prey on deer, elk and other targets.

Over the past few months, several wolves have been found poisoned, and despite the hefty $20,000 reward the investigation has gone nowhere. The Defenders of Wildlife have a trust fund which compensates (at full market value) any rancher who loses livestock. The FWS, which has encouraged the use of guard dogs, temporary electric fences and non-lethal ammunition such as bean-bag rounds, is getting on better with the ranchers, though relations with the hunters are still frosty.

Now that wolf numbers have swelled to around 250, they may be downgraded from an “endangered” species to a “threatened” one next year. That would place them under the care of the state authorities, rather than federal ones. Ominously, Idaho's state legislature recently demanded the removal of wolves from the state by any means necessary. The Idaho Grey Wolf Coalition, which includes hunters and outfitters, claims that there are more wolves doing more damage than the FWS admits.

In fact the wolves do less damage than other more numerous predators. Margaret Soulen Hinson, a rancher based in Weiser, Idaho, estimates that coyotes alone claim up to 14% of her livestock. Bob Ruesink, an FWS supervisor in Boise, points out that poachers kill far more elks and deer than grey wolves do. And the wolves are also attracting some tourists; though, for many hunters, that might be just another reason to reach for their rifles.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

Angels in the marble?

Sep 6th 2001
From The Economist print edition

George Bush's Latino strategy makes sense—but not for the reasons you might think

IT SHOULD come as no surprise that George Bush has chosen the Mexican president for the honour of an invitation to his first state dinner. Vicente Fox has everything that Mr Bush seeks in a foreign leader. He owns a ranch; he likes wearing cowboy boots; he rules a country with an 800-mile border with Texas; he gives Mr Bush a chance to show off his only foreign language; and, most important, he helps Mr Bush endear himself to the fastest-growing group of voters in America, Latinos.

Mr Bush's re-election recipe is straightforward enough: take the conservative base and add new constituencies—such as Catholics, wired workers, suburban women, the young and Latinos. Mr Bush's strategist-in-chief, Karl Rove, regards Latinos as a particularly important new ingredient. They are now the biggest ethnic minority in the country. They do not have the legacy of the civil-rights movement to tie them to the Democratic Party, in the way that blacks have. They are usually cultural conservatives. And they like working in the private sector.

Benjamin Disraeli, the *Times* once famously wrote, saw the conservative voter in the working man just as the sculptor sees “the angel in the marble”. Mr Bush sees the Republican in the Latino in much the same way. Hence Mr Bush's enthusiasm both for giving an amnesty to the 3m or more Mexicans living in America illegally, and also for a guest-worker programme. Hence, too, his hints about appointing Alberto Gonzales, a White House legal counsel, to the next vacancy on the Supreme Court. And hence his distinct lack of enthusiasm for such right-wing shibboleths as scrapping affirmative action and bilingual education. Mr Rove was behind the decision to stop bombing exercises on the Puerto Rican island of Vieques, to the navy's fury. Now he may use Phil Gramm's retirement in 2002 to get a Latino Republican, Henry Bonilla, into the Senate.

But there are problems with Mr Bush's electoral arithmetic. Mr Bush's lieutenants are not so much advancing into new territory as desperately trying to recapture old. In the 1980s the Republicans were making steady gains among Latinos, particularly among the middle classes. But the numbers plunged when the national Republican Party embraced the anti-immigration cause—and they went into free-fall when the Californian Republican Party embraced a ballot initiative that tried to deny social services to illegal immigrants.

Moreover, even if Mr Bush succeeds in expunging this bitter legacy, there is still no guarantee that the Latinos will embrace Republicanism, at least as long as Mr Bush is around. Latinos may be culturally conservative but, for the time being at least, they are also overwhelmingly working-class. Mr Bush came within three points of beating Al Gore among Latinos who earn $60,000 or more, but he lost by 70% to 29% among the much larger groups of Latinos who earn under $40,000. All in all, Latino voters favoured Mr Gore by 65% to Mr Bush's 35%. Of the 19 Latino congressmen, 18 are Democrats.

There are also doubts about Mr Bush's tactics. The amnesty scheme, which Mr Fox now wants agreed this year, raises all sorts of problems. What about non-Mexican Hispanics, who are excluded? And what happens if Mr Bush is forced to back down? Mr Gramm, normally a staunch supporter, spoke for many Republicans when he called the amnesty idea “very bad policy” which “rewards lawlessness”. Many Latinos who spent years getting into the country legally have no truck with queue-jumpers. The chairman of the congressional Hispanic caucus, Silvestre Reyes, made his professional reputation as a border-patrol official who helped to design Operation Hold-the-Line.

There is equally no guarantee that buddying up to Mr Fox is a good way of wooing Latinos. Many Mexican-Americans have come to the United States precisely because they want to get away from the regime back home. Most are sensitive to any implication that their real loyalties lie with Mexico rather

than their adopted country. Gregory Rodriguez, a Los Angeles writer, points out that when the Mexicans raised a huge flag in Ciudad Juarez a few years ago, the people who were most keen on raising an equally huge American flag on the Texan side of the border were Mexican-Americans.

So is Mr Bush's Latino drive a waste of time? Not at all—for two reasons. First, although it might not win many votes as a short-term offensive strategy, it works much better as a defensive long-term one. Giving the Latinos the cold shoulder now could turn a group which will constitute a quarter of the population by 2050 into loyal Democrats. The signs are that Latinos are moving, as Italians did before them, into the suburbs and into the ranks of the middle-class. A little gentle wooing now—combined with some big gestures such as appointing a Latino to the Supreme Court—could pay off in the long-term. It took a long time for Disraeli's strategy to pay off, but it did so handsomely in the end when millions of working-class Britons were happy to vote Conservative.

Second, Mr Bush's strategy does have an immediate pay-off—with moderate white middle-class voters. Just as Disraeli's “one-nation” conservatism softened his party's image, Mr Bush's relative success among Latinos is vital to his strategy of repositioning his party as a party of inclusiveness and optimism rather than intolerance and reaction. The votes he won from Latinos when he was governor of Texas helped to prove that he was a different sort of Republican. By reaching out to them again now, he increases the Republican Party's appeal to moderates, younger voters and soccer moms. Any Republican who doubts this notion need only glance across the Atlantic to see the dismal fate of Disraeli's Conservative successors in Britain. Their failure to embrace Britain's various minorities, from homosexuals to blacks, has helped to alienate the party from the white middle-class majority that it claims to represent. At least, Mr Bush's one-nation strategy should shield his party from that fate.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Colombia's conflicts

Into battle

Sep 6th 2001 | BOGOTA
From The Economist print edition

With less than a year still to serve, President Andres Pastrana must watch opinion hardening against his peace plan

AP

Get article background

THE killings, kidnappings and bombings have become so routine, and the peace talks between government and guerrillas have been becalmed in futility for so long, that a turn for the worse risks going unnoticed. So it was helpful, perhaps, of Jan Egeland, Kofi Annan's special adviser on Colombia, to make a rare appearance before the media last week to convey the UN secretary-general's concern for the country's "deteriorating situation".

Colombia's armed actors—the left-wing insurgents, the rightist paramilitary squads and the armed forces—appear headed for "all-out war", in the view of Mr Egeland, formerly Norway's deputy foreign minister. "Those who criticise the search for peace should carefully consider the alternative," he said.

What has prompted Mr Egeland's alarm? Most obviously, that the peace talks with the FARC—the largest guerrilla force, with some 16,500 troops—are in deep trouble. For that, the FARC is almost wholly to blame. In July it seized a former provincial governor from a UN car, and kidnapped (and still holds) three German aid workers. By these actions, the FARC thumbed its nose at the European governments that have so staunchly defended the peace process launched by President Andres Pastrana in 1998.

Ordinary Colombians are also still the victims of guerrilla kidnappings and attacks on poorly-policed towns. Many analysts believe that the FARC has not abandoned its hopes of military victory. That seemed to be confirmed by the arrest last month of three IRA men; intercepted radio communications indicated they had been training the FARC in urban insurrection.

Not only have three years of talks with the FARC produced no agreements beyond a prisoner swap; last month the government broke off talks-about-talks with the ELN, the country's second guerrilla group. Both forces are expected to step up military action during the campaign for the presidential election next May. So, too, may the right-wing paramilitary vigilantes of the United Self-Defence Forces of Colombia (AUC), who are responsible for more civilian deaths than the guerrillas—although this week they announced that they would set up a political movement, and demanded a seat at the peace talks. But this week, too, a prosecutor investigating the killing of 27 peasants by the AUC in January was murdered, presumably by the paramilitaries themselves.

Colombians increasingly believe that the guerrillas will not negotiate seriously until they have been weakened on the battlefield. That is something the armed forces—bolstered by more professional troops and by American equipment, intelligence and training—are now confident they can do. Last month they routed a FARC column moving out of what Colombians call the *despeje*, a zone granted as a sanctuary to the guerrillas in which to hold talks. Using its new helicopters, the army claims it deployed 3,000 men in 24 hours. In several weeks of fighting, some 120 guerrillas were reported killed.

Public support for the armed forces is higher than it has been for years. They are feted by the country's businessmen and politicians. But the army's popularity is increasing the pressure on Mr Pastrana to put an end to the *despeje* when it comes up for renewal next month, or at least to reduce its size. The army argues that the all-out war feared by Mr Egeland is already taking place; indeed, it claims now to be

winning it. But the UN counters that fighting alone will not solve the conflict.

The decision about the future of the *despeje* is “purely, wholly, totally and solely a matter for the Colombian government,” says Marc Grossman, a senior State Department official who led an American delegation to Colombia last week. No doubt Mr Grossman's boss, Colin Powell, will give the same public message when he visits Bogota next week. But the United States has never been enthusiastic about Mr Pastrana's peace talks. “There is a lot of signalling from Washington to whoever comes next as president saying that the United States is not very pleased with the indefinite continuation of the *despeje*,” says Michael Shifter of the Inter-American Dialogue, a Washington think-tank.

The United States is keener on the efforts made by Mr Pastrana to fight drugs. With American support, the government claims to have eradicated 64,000 hectares (158,00 acres) of coca so far this year. That is double the rate of past years. But guesses about the total area under coca have also been revised upwards. American officials say that by next year they will at last have the resources to make a serious dent in the coca crop; another 35 helicopters are due to arrive before December, and more crop-spraying aircraft. But they admit that aid for alternative development projects has been slow to arrive.

Many foreign diplomats still take the view that any peace talks are better than none, and that Mr Pastrana will bequeath his peace policy to his successor next August. This week the president spoke out in favour of the *despeje*, saying its end would “aggravate the conflict”. But all of the three main presidential candidates say they would take a tougher line in the peace talks. The toughest is Alvaro Uribe, an independent Liberal; he would end the sanctuary unless the FARC ceased all hostilities, and wants to set up an unarmed civilian militia. That looks to his critics like legalising the AUC, though he denies that. One recent opinion poll placed Mr Uribe in the lead for the first time. He may not win, but all the signs are that Colombia's mood is hardening.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Policing in Brazil

Nice cops, nasty cops

Sep 6th 2001 | RIO DE JANEIRO
From The Economist print edition

Facing rising crime, some Latin American police forces are reforming, while others resort to brutality. We report here on the political threats to a promising project in Rio de Janeiro, and here on killings by the police in Venezuela

"THAT'S how things used to be here," says Major Antonio Carlos Carballo, pointing out the bullet-holes in the walls as he climbs a path through Pavao-Cantagalo, a tightly-packed *favela* (shantytown) of 3,000 homes, perched on a rock overlooking Copacabana and Ipanema, Rio de Janeiro's most famous beaches. For the past year Major Carballo has led a scheme to pacify this once-violent *favela* through community policing. Some residents still eye him disbelievingly as he patrols. But most seem grateful for a constant police presence, inhibiting the gun-toting gangs that used to rule the roost.

The project arose from a notorious example of Rio's traditional style of policing: in May last year officers burst into Pavao-Cantagalo and opened fire on what they claimed were gang leaders, killing five young men. Irate residents then descended to the rich beachside neighbourhoods, setting fire to cars. That prompted Rio's state government, responsible for policing, to let Major Carballo try out his ideas. He says that since the project began there have been no killings in the *favela*—by either police or gangs.

AP

A thin line between community policing and gun law

Anthony Garotinho, Rio's populist governor, came to power in 1999 promising sweeping reforms of brutal and corrupt police forces. But he met fierce resistance from police chiefs. At their urging, last year he sacked his public-security adviser, Luiz Eduardo Soares, who with Major Carballo had designed many of the reforms. Since then, Mr Garotinho has tried to please both sides: he has let Pavao-Cantagalo's community-policing scheme continue and is starting a similar scheme in a second *favela*. But he has also let the police continue their tradition of periodic raids on *favelas*, staging shoot-outs with gangs before retreating. The latest police attack, on September 3rd, involved 3,000 officers. A day earlier, a stray bullet from a gun battle between police and *favela*-dwellers had killed a pregnant woman driving nearby.

Behind the battle over policing lies a political battle. The current wave of police raids follows recent television exposés of *favela* drug-trafficking. Cesar Maia, the city's conservative mayor, seized on these to accuse Mr Garotinho and Mr Soares (now an adviser to the left-wing Workers' Party) of running a "disastrous" policy of drug liberalisation. Mr Maia claimed that in Pavao-Cantagalo, Major Carballo's community cops were acting as the traffickers' private security guards. Major Carballo denies this: drug offenders are arrested, he says, though he gives higher priority to gun control than to searching for drugs.

The *favelas* on Rio's hillsides and on the outskirts of Brazil's other big cities grew rapidly from the early 1970s, as migrants flocked in from the countryside. They now house a quarter of the city's 6m people. But only in the mid-1990s did local authorities recognise that they were there to stay; with foreign aid, mainly from theInter-American Development Bank (IDB), they began projects to turn *favelas* into normal residential areas, with improved housing, roads and public services. The IDB reckons that about a third of the *favelas* have so far been transformed.

But adequate police protection is still a service most *favelas* lack. Even Major Carballo admits that he has struggled to stop his officers reverting to old habits; many have been transferred, accused of brutality or extorting bribes. He fears that his commanders will close down the scheme. Mr Garotinho will run for re-

election as governor next year, unless he runs for president. Will he offer community policing as a model for ending the bloodshed in the *favelas*? Or will he have scrapped it for fear of being taunted as “soft on crime”?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD THE AMERICAS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Policing in Venezuela

Trigger happy

Sep 6th 2001 | CARACAS
From The Economist print edition

An unofficial death penalty

WHEN his 23-year-old son was murdered by police in their home town of Acarigua in October last year, Ramon Rodriguez, himself a former policeman, swore the death would not go unpunished. “They may kill me too,” he warned his wife. Even so, Mr Rodriguez sought justice, pressing the state prosecutor's office, and going on television. But just days after the programme was recorded, and before it was aired, half-a-dozen hooded men arrived at Mr Rodriguez's farm in the south-western state of Portuguesa, and fired 19 bullets into him.

His murder did not stop the arrest by federal prosecutors of a score of Portuguesa state policemen. All are allegedly members of a death-squad that may have killed 100 or more supposed criminals in Portuguesa between September 2000 and May this year. But the victims' relations and human-rights activists are sceptical that Venezuela's creaky justice system will lay hands on those who ordered this policy of “social cleansing”.

Portuguesa's “extermination group” came to public attention partly because of Mr Rodriguez's efforts, but partly also because of the way it operated. Its victims were hauled from their beds, or shot dead on street corners, with little regard for who might be watching. Such killings are not new nor uncommon in Venezuela. But their perpetrators seem to be becoming increasingly casual, no longer bothering to disguise or conceal their executions.

Some policemen reject such methods; others argue that some criminals, especially murderers and rapists, are beyond reform, and should die. The main reason is the rising crime rate and the state's apparent inability to bring it under control against a background of rising poverty. The murder rate, and that for other violent crimes, has tripled in the past decade; in Caracas, the capital, it has quintupled. Most polls show crime to be the voters' top concern. They also show widespread public support, often topping 50%, for the death penalty; a poll in Portuguesa even showed majority backing for the execution of criminal suspects by police.

The government insists that it does not support killing criminals. “It is not the policy of the Venezuelan state [to allow the police] to take justice into their own hands and execute criminals,” says General Luis Camacho, the deputy interior minister. But his predecessor admitted that 2,000 “potential delinquents” died in the first six months of last year in “gun battles” with police or in “score-settling” between gangs. Both these statistical categories are used to mask murders by police, according to criminologists.

Critics blame a liberal new code of criminal procedures, adopted two years ago. This established for the first time the presumption of innocence and also limited the practice of imprisoning unconvicted defendants, which led to the release from jail of thousands of prisoners on remand. Though applauded by human-rights groups, it has proved unworkable, for two main reasons. First, neither recruits to a new prosecution service nor judges have been trained in the new code. Secondly, the police are hostile to it, and as a result are said to have given little co-operation to the prosecutors.

The code has already undergone one reform, and now faces another. There has been talk of an emergency law which would suspend its application while the changes are hammered out. Meanwhile, the executions, though equally ineffective at curbing crime, continue.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Latin American economies

Mexico overtakes Brazil

Sep 6th 2001
From The Economist print edition

Exchange rates sometimes reveal half-truths

ALL Latin Americans, and especially Brazilians, know that in everything from population to the economy, or even rainforests and rivers, let alone carnivals, Brazil is simply *o mais grande*, or the biggest. Prepare for a shock. Around about the middle of this year, Mexico's economy overtook Brazil's to become the largest in the region.

Measured in dollars, that is: for the 12 months to June, Mexico's GDP was $596 billion. Brazil's statistical institute has not yet released the equivalent figure, but it has said that the economy grew by 0.8% in the second quarter compared with the same period last year. After factoring in inflation, that would make Brazil's nominal GDP for the year to June a mere $569 billion.

That is quite a turnaround: as recently as 1996, Brazil's GDP, at $775 billion, was twice as large as Mexico's. What explains the change? Partly the huge growth in Mexico's exports to the United States, which meant that its economy grew at an annual average of 5.6% between 1996 and 2000, against 2.2% for Brazil. But mainly Mexico's sturdy peso, which has fallen by just 18% since 1996, and the frailty of Brazil's *real*, which lost 61% of its value against the dollar over the same period.

In many ways, Brazil's economy is still the bigger: at purchasing power parity (a measure that takes account of local prices), its GDP last year stood at $1.2 trillion, against $890 billion for Mexico, according to estimates by the Economist Intelligence Unit, our sister company. And whereas Brazil faces slow growth, Mexico may be heading for recession (and perhaps a weaker peso) because of the slowdown in the United States.

But Brazil should still beware. Investors tend to measure the size of the current-account deficit and foreign debt as a proportion of nominal GDP. And to make matters even worse, on current performance Mexico may soon overtake Brazil in the world football rankings.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Caribbean diplomacy

Votes for hire

Sep 6th 2001 | PORT OF SPAIN
From The Economist print edition

The ostracised woo the small

ON SEPTEMBER 3rd Taiwan's premier, Chang Chun-Hsiung, landed in the tiny Caribbean island of St Kitts-Nevis along with 65 officials. Mr Chang's trip will also take him to Dominica, Grenada and St Vincent, three other members of the Organisation of Eastern Caribbean States (OECS), and among the handful of countries that still recognise his government.

Both sides get something from their friendship. Taiwan pays for development projects; the islands insert pro-Taiwanese remarks in their speeches at the UN General Assembly. But Taiwan is not the only far-flung friend of the OECS countries. Last month the prime ministers of Dominica, Grenada and St Vincent visited Libya, and came back laden with promises of grants, loans and debt-forgiveness.

What explains the discreet charm of these small-island states? The nine members of the OECS have fewer than 600,000 people between them, or one in 10,000 of the world's population. But they control 3% of the votes in the UN General Assembly. In some other international bodies, they count for even more.

The OECS states make up almost one-sixth of the International Whaling Commission, though none has a whaling industry. They vote with Japan to block proposed whale sanctuaries, while at home they promote eco-tourism, including whale-watching. But Japan has been generous: it has given several million dollars to each island for fisheries projects. Some of these are ill-conceived; in Dominica, a $5m complex for trawlers lies idle. Island leaders say they must take help wherever it is offered. But some OECS countries are doing well. And the European Union's grants to help restructure an uncompetitive banana industry have amounted to as much as 5% of GDP in some islands. Small need not mean desperate.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Japan

Reform on hold

Sep 6th 2001 | TOKYO
From The Economist print edition

Junichiro Koizumi flounders as the economy worsens

AN AUTUMN of reform is what Junichiro Koizumi promised Japan's desperate voters. Yet two weeks after the new prime minister returned from his holidays in the cool of the mountains, there is no sign that one is on the way. Like so many of his predecessors, Mr Koizumi seems to be gently subsiding into Japan's familiar political quicksand.

Central reforms are being abandoned, say his critics, or neutered. In anticipation of a mountain of legislation, the Diet (parliament) was supposed to have reconvened in August. Now, it will not start work until the end of September. There is still no word from Mr Koizumi about his policy priorities, despite a promise that he would draw up a list by August. The stockmarket is plunging, the banks are weakening by the day and the economic recession deepens. But half of the government's most crucial ministers are travelling abroad. As for Mr Koizumi himself, he is holed up in his official residence, say political gossips, listening to opera.

Something Wagnerian would go well with the terrible news outside. Big exporters, like Hitachi and Toshiba, are announcing huge layoffs. Small-firm confidence continues to plunge. Output is falling rapidly and deflation is deepening. Statistics due out on September 7th may, it is feared, show that between April and June the economy shrank by 4% or more at an annualised rate. With confidence in the government's policies ebbing rapidly, the markets are abuzz with talk of a fresh financial crisis. Since Mr Koizumi's return to Tokyo, the stockmarket has fallen by nearly 10%, a drop so far interrupted only by hopeful rumours that Hakuo Yanagisawa, Mr Koizumi's minister in charge of the bank clean-up, will soon resign.

Mr Yanagisawa is now Mr Koizumi's number-one problem. Mr Koizumi went to the voters before the election in July for Japan's upper house with a promise to clean up the banks within two to three years. But the plan for doing so that Mr Yanagisawa has been touting round Europe and America this week looks almost identical to the one he drew up in April, under the discredited administration of Yoshiro Mori. The markets condemned it at the time. Not surprisingly, they are passing the same judgment now.

At the heart of the matter lies the fact that no one believes the government's figures for the amount of bank loans that could turn sour. Goldman Sachs, an American investment bank, thinks the true number may be an eye-popping ¥170 trillion ($1.4 trillion), seven times the official figure. By pushing bank shares ever lower, the markets are saying that the banks are short of capital and need public money. But Mr Yanagisawa will not countenance that. His staff are back in siege mentality, railing at Goldman Sachs and suchlike and furious with the IMF, whose request last week to inspect Japan's financial system got a dusty response.

Even by Japanese standards, Mr Koizumi has shown himself to be remarkably insensitive to these market signals. It took him a whole week to “correct” Mr Yanagisawa's all-too-honest gaffe that it would take not three years but seven to clean up the banks, by which time the damage had been done. Among cabinet members, only Heizo Takenaka, Mr Koizumi's economics minister, retains the confidence of the markets. But Mr Takenaka is an academic economist, and is not faring well among the insiders of Nagatacho, Tokyo's political district. Mr Takenaka wants Mr Yanagisawa sacked. But Mr Yanagisawa has far more political clout

Damaging cabinet divisions are appearing elsewhere. Despite the awful economic news, Mr Koizumi is still trying to push ahead with his dubious plan to tighten government spending. In fact, as cabinet heavyweights like Takeo Hiranuma, the economy, trade and industry minister, have defied the prime minister and called for a big emergency budget, Mr Koizumi has been upping the stakes. Now Mr Koizumi says he wants to bring forward his plan to cap government bond issues at ¥30 trillion from next year to this year, which would tighten public finances almost immediately. In recession, however, Mr Koizumi will have to issue more bonds simply to cover the government's tax shortfall. Already the Ministry of Finance is indicating that this year's tax revenues may fall below target.

Other battles that Mr Koizumi persists in fighting look less wrong-headed than simply irrelevant. While the banks burn, Mr Koizumi has been prodding his minister in charge of public-sector reform, Nobuteru Ishihara (also travelling abroad), to crack the whip over the government's hugely ambitious privatisation programme. The true scale of this task became a little clearer this week. Of the 74 public-sector corporations that Mr Koizumi wants abolished or privatised, the bureaucrats agreed to part with just four, all of which the government had previously earmarked to get rid of anyway.

How much of Mr Koizumi's dithering reflects a change of heart is not yet clear. The talk in Nagatacho is that Mr Koizumi has begun to cosy up to the dinosaurs of the Hashimoto faction in his Liberal Democratic Party (LDP). On the election trail, Mr Koizumi strongly suggested that he would take on these anti-reformists in a straight fight. His ardour cooling, say some LDP insiders, Mr Koizumi has become more interested in cutting the sorts of political deals that would secure him a longer period in office.

Most damning of all, the Hashimoto faction's big cheeses no longer seem threatened by Mr Koizumi's reforms. Let Mr Koizumi labour away, is their judgment, because he is unlikely to be around long enough to upset things too badly. Whatever the reason, “Jun-chan” already seems a shadow of the man who led his party to victory in July.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Australia and refugees

Election ahoy

Sep 6th 2001 | SYDNEY
From The Economist print edition

John Howard's "Pacific solution"

AP

Not what most Australians want

NAURU, a Pacific island near the equator, has a number of unusual features. It is one of the smallest countries, with no official capital. About 20 years ago, its 11,000 people were among the world's richest from the proceeds of the phosphate that made up most of Nauru's structure. Most of the phosphate is gone, Nauru is no longer rich and the Australian mining companies have been replaced by Russian money-launderers. Now Nauru is about to add an even more bizarre chapter to its story as a pawn in the re-election plans of John Howard, Australia's prime minister.

Nauru is one destination (New Zealand is the other) to which Mr Howard has sent 433 refugees, most of them Afghans, who tried to land on Christmas Island, a part of Western Australia. They were adrift in a leaking craft after each paying people-smugglers in Indonesia up to $20,000 to get them to Australia. A Norwegian freighter, the *Tampa*, rescued them on August 26th after being alerted to their plight by an Australian coastal surveillance aircraft. But the asylum-seekers never set foot in Australia. This week they were aboard an Australian naval ship heading for Papua New Guinea, before going on to Nauru or New Zealand, where their applications for asylum will be processed. Mr Howard proclaimed this a "Pacific solution". Some others saw it differently.

Australia's first boat people were British convicts who in 1788 landed where Sydney is now. Waves of arrivals have built modern Australia since; the most recent were refugees from Vietnam and China. Each wave has sparked debates over an old fear, embedded deep in the Australian psyche, about "invasion from the north". Asylum-seekers from Afghanistan and Iraq account for the biggest number of refugees arriving by boat in the past two years. The Afghans have received most sympathy, escaping from a regime whose harshness was made all the more evident this week as eight foreign aid workers faced possible execution if found guilty of trying to convert Muslims to Christianity. However, whatever the sentiment attached to the refugees, all have gone, at least at first, to isolated detention centres in the outback.

When the *Tampa* picked up the latest lot and ignored Australia's request to return them to Indonesia, Mr Howard saw an opportunity to beat the drum about his government's determination to stop the human tide supposedly invading Australia's northern coast. His coalition government faces an election for a third term by December. When the *Tampa* drama started, the government was behind the opposition Labor Party in the opinion polls. The Liberal Party, which Mr Howard leads, was involved in a scandal over some of its branches cheating on tax returns. The *Tampa* story wiped that off the front pages. Mr Howard's political judgment appears to have been correct. According to an opinion poll this week, 77% of Australians approve of his refusal to allow the *Tampa*'s human cargo to land in Australia, even though much of the media condemned him for it.

Outsiders, too, were critical. But as long as the polls favour his coalition, any such criticisms are unlikely to trouble Mr Howard. He will, however, be anxiously awaiting the outcome of an application by civil-liberties groups to the Federal Court in Melbourne. They claim Australia acted illegally by refusing to accept the refugees. The court's decision was not expected until September 7th at the earliest.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

China and the Koreas

Fraternal meetings

Sep 6th 2001 | BEIJING
From The Economist print edition

Signs of a thaw on the Korean peninsula

AP

NORTH KOREA'S leader, Kim Jong Il, was up to his usual brinkmanship this week. This time it was a last-minute attempt to bolster the fortunes of South Korea's top official responsible for relations between the two Koreas, Lim Dong Won. A day before the South Korean legislature was due to vote on a motion of no confidence in Mr Lim for his alleged softness in handling the North, the government in Pyongyang said it hoped to resume talks with the South as soon as possible.

Mr Kim's intervention failed. On Monday the motion was passed, with the help of a small coalition partner of President Kim Dae Jung's Millennium Democratic Party which voted with the opposition camp. On Tuesday the entire South Korean cabinet resigned in order to pave the way for a shuffle. The South's President Kim will now have to deal with a fortified, and distinctly Pyongyang-phobic, opposition in his dogged efforts to pursue a “sunshine policy” of reconciliation with the North.

But North Korea's swiftly-accepted offer of talks did come in time to cast a rosy glow over this week's visit to the North by China's president, Jiang Zemin. China has been urging its ally to resume official contacts with the South, which it broke off in March to display its anger at President George Bush's tougher line towards the North. Optimists see Mr Jiang's visit, less than a month after an unprecedented official trip to Moscow by Kim Jong Il, as a sign that North Korea could be preparing to renew engagement with the South.

Mr Jiang would be delighted to give the impression that China has a big role to play in easing tensions on the Korean peninsula. But in reality China's ability to influence North Korean policy is limited. Notwithstanding the hundreds of thousands of North Koreans mobilised to greet Mr Jiang's motorcade and dance for him at a gaudy evening performance, North Korea feels uneasy about its much more powerful and prosperous neighbour. This was Mr Jiang's first visit to the North in 11 years and his first ever in the seven years of Kim Jong Il's leadership. But he spent only one full day there, with not even a bland joint statement to show for it.

Mr Kim has a lot to thank Mr Jiang for, especially some of the food and fuel that have helped to prevent his famine-stricken country from collapsing. China's fear is of a political meltdown in North Korea that could turn the current stream of North Korean refugees into China into a torrent. For all their misgivings about Mr Kim's bizarre rule, the Chinese see benefit in trying to prop him up. Mr Jiang paid due homage to his host's eccentricities by visiting an ostrich farm. The huge enterprise on Pyongyang's outskirts is one of Mr Kim's pet projects—the idea presumably being to supply his starving people with lean steaks and exotic leather goods.

But China does not want its ties with recalcitrant North Korea to upset relations with more important countries—South Korea, Japan and America. Although both North Korea and China have been among the most vocal critics of Mr Bush's missile-defence programme, the Chinese this week said they were ready for “serious” dialogue on the issue. Some onlookers believe the Chinese will tacitly accept American missile defences while the United States will tacitly accept China's right to maintain a limited nuclear deterrent capable of penetrating the American shield. “There's going to be a basic understanding, a wink and a nod,” says Bates Gill of the Brookings Institution in Washington.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Thailand

Marching back

Sep 6th 2001 | BANGKOK
From The Economist print edition

Thailand's armed forces show signs of reasserting themselves

AS MANY a Thai would ruefully admit, the country's powerful armed forces have traditionally been as concerned about internal enemies as about foreign threats. During the cold war, this meant fanning the flames of anti-communist hysteria and, every few years or so, shooting pro-democracy demonstrators who dared to object to the latest of Thailand's many coups.

Now, almost a decade after the last bloody street demonstrations, Thailand seems to have consolidated its transition to democracy. But the army is gaining in importance again. Since Thaksin Shinawatra became prime minister earlier this year, the military reforms started by the former prime minister, Chuan Leekpai, have begun to be rolled back. On June 3rd Thailand repealed its Communist Prevention and Suppression Act, a 1952 law that gave the armed forces the right to combat domestic security threats. Yet the army now proposes that the 1952 statute should be replaced with a new law that would give its men in green even greater powers.

Under this new law, the armed forces would enjoy a sweeping mandate to fight drug smuggling, environmental degradation and a host of other problems. They would have the right to search homes without a warrant, tap telephones and possibly hold suspects without a trial.

The proposed new security law is only one sign that the army is back. General Manoonkrit Roopkachorn, a former leader of the officers who played a major role in several coups, has been named speaker of the Senate. It is said that the more reform-minded army chief, Surayudh Chulanont, is being shunted out of power. General Chavalit Yongchaiyudh, the defence minister, has played an active role in the Thaksin government, even proposing that the army should take the lead in diplomacy towards Myanmar.

The interior minister, Purachai Piumsombun, recently told reporters that he would like to see Thailand's soldiers play a bigger role as officers of the state, alongside their drug-suppression duties. The recent influx of amphetamines into Thailand from Myanmar also strengthens the army's claim that it needs to step up its drugs role, even at the expense of civil liberties.

Despite the drugs problem, most Thais oppose giving more power to the troops. Several politicians who had to flee into Thailand's jungle in the 1960s and 1970s, when the army cracked down on leftists, have decried any new military build-up. A recent poll by Bangkok's Assumption University found that 75% of respondents thought the new security law would violate individual rights and lead to abuses of power.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

India

Step on the gas

Sep 6th 2001 | DELHI
From The Economist print edition

Court demands a clean getaway

EPA

No one said it would be easy

LONG queues of black-and-yellow taxis, resembling breadlines for bumble bees, have become a familiar sight outside Delhi's fuel stations. They formed suddenly this summer after Delhi realised that the Supreme Court really meant it when it ruled three years ago that public transport in India's capital would have to run on compressed natural gas (CNG), a cleaner form of fuel than petrol or diesel.

It is an Indian syndrome: one part of the system gets serious, while the others behave as if nothing has changed. It happened to Enron, an American energy company that built a power plant in the western state of Maharashtra and is having trouble getting paid. And now it has happened to Vipin Handa, who spent seven hours one day this week waiting to fill up his auto-rickshaw with CNG near Delhi's *purana qila* (old fort). His succinct explanation: the government invited the groom but failed to prepare the bride.

The main political parties are milking the shambles for all they can. Delhi's government, run by the opposition Congress party, accuses the gas company, a central-government operation, of failing to supply enough CNG and the wherewithal for distributing it. The central government, led by the Bharatiya Janata Party, says the city authorities failed to say how much CNG Delhi would need.

Owners have until September 30th to convert their vehicles, too little time, since just a quarter of the buses have switched to CNG. Drivers who have not made the switch are praying that the court will relent, and allow a cleaner form of diesel as an alternative. Whatever happens, Delhiites are already enjoying one benefit of the court's environmental activism: cleaner air. Just as long as they don't need a taxi.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Radiation in Kazakhstan

A nuclear dustbin?

Sep 6th 2001 | ALMATY
From The Economist print edition

Cleaning up the site where the Soviet Union tested its atomic weapons

Reuters

WHENEVER an extreme change in the weather occurs in Kazakhstan, especially when it suddenly rains hard, people who lived through the Soviet period still wonder if another rocket has gone up at Baikonur, the site of the Russian space programme. Or have the Chinese resumed their nuclear tests in nearby Lop Nor? Or is the Semipalatinsk nuclear testing site being used again? In fact, only Baikonur is still in use. But memories linger. The four decades during which the Soviet Union tested weapons of mass destruction have left Kazakhstan a heavy legacy. “It is very difficult to bear alone the whole expense of resolving problems of global importance,” complains President Nursultan Nazarbaev.

Between 1949 and 1989, more than 450 atmospheric and underground explosions were conducted at the Semipalatinsk testing site, which, at 18,500 square kilometres (7,140 square miles), is the size of Wales. The total energy released by all these explosions is estimated to have exceeded 2,500 times the power of the atomic bomb dropped on Hiroshima in 1945. About 300,000 square kilometres of territory suffered ecological damage and will take 300 years to recover, says Mr Nazarbaev.

How many people were exposed to radiation is still unclear. When Kazakhstan inherited the test site after the collapse of the Soviet Union, about 1.6m people were estimated to have received at least some radiation as a result of the tests. In 1998 this estimate was reduced to 1.2m. More than 100,000 people are believed to have been heavily affected by the tests. Cancer and birth defects are said to be much more common in the Semipalatinsk area than in other parts of Kazakhstan.

Last week Mr Nazarbaev used the tenth anniversary of the closure of the Semipalatinsk site to appeal for money. He said that the cost of coping with the effects of radiation would be more than $1 billion. So far, he said, Kazakhstan had received only $20m. But perhaps the president's officials are notmaking best use of what help is available. Foreign aid, offered with the best intentions, appears to be ignored. Britain's Department for International Development has been keen to help Kazakhstan start to reclaim the contaminated territory, but has seen its work badly hampered. “We are almost close to closing the file because the authorities have been very difficult,” says Christelle Generoso, who works on the project.

In a move that seems to contradict the president's wishes for a swift clean-up, officials are now considering a plan to import low and medium-grade radioactive waste from abroad. This would be buried along with Kazakhstan's own radioactive waste. Some countries are desperate to dump such undesirable material elsewhere, and are prepared to pay a high price to do so. Russia itself is considering taking other countries' radioactive rubbish. Kazakhstan's reasoning is that with money in the bank for being a nuclear dustbin, it could proceed quickly with a general clean-up.

The national nuclear energy company, Kazatomprom, estimates it could earn up to $40 billion over the next 25 to 30 years. Its specialists are confident that they have the perfect spot to dump the stuff, old uranium mines in western Kazakhstan; or at Semipalatinsk itself, where new storage facilities could be created. Local people may feel that what they are creating are new problems.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Fundamentalism in Pakistan

In the shadow of the Taliban

Sep 6th 2001 | LAL QILA
From The Economist print edition

Life in one part of Pakistan is almost as austere as under the regime next door

EVEN on a hot day in Chakdara, a town in the Malakand division of Pakistan's North-West Frontier Province, Painda Khan can draw a sizeable crowd. “The government wants to disarm us,” he thunders. “Those who have surrendered arms have insulted the people of this area.” He changes the subject. “We are not going to pay any tax, but only *zakat*,” Islam's form of mandatory charity, he declares. Clapping from the all-male audience crouched on a dusty expanse by the side of the road draws a rebuke from another speaker. Applause, he points out, is unIslamic.

“UnIslamic” is a word heard often on the lips of adherents of Tehrik Nifaz Shariat-e-Mohammadi (Movement for the Enforcement of the Law of Muhammad), which organised the Chakdara rally. Sitting in the courtyard of a religious school he runs in the village of Lal Qila some two hours farther into the hills, Sufi Muhammad, the movement's leader, explains that most taxes are unIslamic, as is most people's idea of democracy. Educating women beyond puberty “leads to women having liberties”, an affront to Islam. The uniform he and his followers wear—long white pyjamas crowned by black turbans—suggests the starkness of their views, just as the black and white flags that sprout in pairs along roadsides testify to their influence in this mountainous region of some 4m people.

The movement's main demand is the implementation of *sharia*—Islamic law—in Malakand. This would end crime, corruption, injustice and “all social evils”, according to Sufi Muhammad. Some regard his group as the embryo of a movement that could remake Pakistan in the image of its fundamentalist neighbour, Taliban-ruled Afghanistan. It seems neither so formidable nor so ambitious. Yet its restrictive reading of Islam is shared widely enough to worry those who are trying to modernise Pakistan, including parts of its military-led government, which has been trying to crack down on extremist groups in other parts of the country.

In Malakand, a tribal area much of which acceded late to Pakistan and is still only partially integrated into it, Sufi Muhammad is a force to reckon with. When the government recently exempted the division from “deweaponisation”, a programme to disarm civilians, the movement claimed credit. When it held local elections recently in parts of Malakand almost no women stood for seats reserved for them or turned up to vote.

Those who flout the group's notion of Islamic correctness pay a penalty. In the face of clerical hostility, Khwendo Kor (Sisters' Home) shut nine of the 39 schools it ran mainly for girls, says its head, Maryam Bibi. For encouraging mingling between the sexes, the charity earned itself a *fatwa* from one of Malakand's religious authorities, allowing any local to abduct a woman who has thus transgressed and marry her. Maryam Bibi is no infidel. She deems herself a religious Muslim. “Islam is not only their religion, it is our religion,” she declares. Yet those who believe Islam allows sexual equality, and that development demands it, find it impossible not to cross Sufi Muhammad and others like him.

His writ does not run in all of Malakand, still less beyond its borders. In 1994 some of his activists took over courts and an airport, and several died in clashes with the authorities. The provincial government later acceded to Sufi Muhammad's demand for *sharia* in Malakand, but, he says, fails to practise it. The government set up Islamic courts, but “instead of religious people sent normal judges”.

The sufi seems to have little interest in what goes on outside Malakand and its neighbourhood. He does

not, for example, encourage his disciples to fight Indian rule in Kashmir. Perhaps this is because Sufi Muhammad's agenda owes as much to the traditions of the local Pathan population as to the Koran. It is Pathan culture, which most Afghans share, that is noted for a fondness for carrying arms and being so unusually keen on closeting women. Sufi Mohammad's aversion to taxes also fits with local custom. As a latecomer to Pakistan, the area was exempted from certain taxes; its proximity to Afghanistan puts it on the smugglers' route. Cars in the area sport licence plates bearing the code “NCP”, for No Customs Paid.

Sufi Muhammad may be mellowing. His group's recent agitations have been peaceful. One, a sit-in in the spring, involved mainly old men, says a local observer. Maryam Bibi thinks the impoverished Pathans are pragmatic enough to realise that the future depends partly on young women. “The desire for development is very strong,” she says.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Jim Rohwer

Sep 6th 2001
From The Economist print edition

THIS was a time of celebration for Jim Rohwer. His new book, “Remade in America”, was stirring up an agreeable amount of controversy. He was on holiday in France, a country whose style of life came close to his idea of perfection. He was an optimist, and life was good.

He died in a sailing accident in the Mediterranean. He was not by nature an athlete. What he liked about water, he said, was that it gave you some space to think. His flat in Hong Kong, where he lived, was high over the harbour. Jim's idea of a pleasant evening was to sit on his balcony watching the boats settle for the night.

Jim, who was 52, was the first editor of the Asia section in *The Economist*. He picked the team to report on the region and fashioned it to provide with accuracy and style a running account of what he considered the most fascinating set of countries in the world. Later he abandoned his London desk and moved to Asia to write the stuff himself.

Journalism, however finely crafted, has its limitations, and after leaving *The Economist* Jim Rohwer wrote books. “Asia Rising”, published in 1995, was about the region's “miracle” growth. In the slump that followed, he defied the pessimists with a fierce defence of the region's prospects. “Remade in America” is a defiant return to the same theme of the basic strength of Asia. He offers the reasons for the extraordinary prosperity of his native United States over the past decade and says that Asia must learn from them. Can it do that? Of course. Jim Rohwer was an optimist.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Debating racism

Shambles and fury in Durban

Sep 6th 2001 | DURBAN
From The Economist print edition

EPA

A United Nations world conference against racism was in tatters this week. Who is to blame?

THE meeting was supposed to be far too important to foul up. Racism, as every delegate intoned, is a modern scourge. Xenophobia is evident all over the world. For eight days in the South African port of Durban, the World Conference against Racism, Racial Discrimination, Xenophobia and Related Intolerance was meant to highlight the problem and persuade more governments to outlaw discrimination. An apology for slavery in the past might be forthcoming. And if minority groups—camera-courting pygmies and Amerindians who strutted by with feathers in their hair—could bolster their profile and influence, so much the better.

Instead, the conference descended into farce. On Monday the American and Israeli delegations stormed out, citing anti-Semitic attacks outside the official meeting. (Some activists had handed out leaflets saying Hitler should have finished “his job”; others accused Israel of carrying out genocide.) When Arab delegations tried to single out Israel for condemnation in the final declaration, the Israelis claimed the meeting had become a forum for racists.

On Thursday there was some hope that all mention of the Middle East would be excised once South Africa had proposed a new text. A small, secretive team of Arabs, Europeans and Africans pored over the new wording and discussed whether Israel could be ignored after all. If not, Canada and all the European Union (EU) countries seemed ready to walk out too.

Recriminations flew as activists, the noisiest from Europe and America, screamed at each other in front of television cameras. “Authentic Rabbis”, in corkscrew curls, waved placards condemning Israel and Zionism. The official Palestinian delegation smirked that the United States had shown itself isolated again. “It was the will of the world to condemn Israel's actions,” claimed a Palestinian negotiator.

Furious African-Americans said their government's delegation had used Israel as a cover to avoid the conference's second difficult issue, the slave trade. The Rev Jesse Jackson, still America's paramount black leader, muttered that the American delegation had come to sabotage the meeting. A South African government spokesman agreed that America had used the Middle East controversy as a red herring while it fled for the door. Fishy or not, it skipped out just as talks on transatlantic slavery took a turn for the worse.

At the start of the week, some European countries, notably Germany and Belgium, the current president of the EU, seemed ready to make a general apology for slavery. African governments had assured them

that they wanted contrition, investment and aid rather than reparations. But as the week wore on, American activists pushed African countries to demand “restitution for their immense suffering” from western states (ie, reparations and more debt relief) and recognition of slavery as a crime against humanity (ie, grist for lawsuits). The Europeans promptly closed ranks around those old imperial slavers, Britain, Spain and Portugal, which had earlier refused even to consider an apology.

Caught in the middle, the South African government and Mary Robinson, the United Nations human-rights chief who was running the show, tried to limit the damage. There had been successes, she said. Some 18,000 people had attended from over 160 countries, including 4,000 non-governmental activists and over 1,000 journalists. The activists had their own marches and meetings, in which victims of discrimination—an escaped slave from Niger, an “untouchable” widow from India—told their moving tales.

But Mrs Robinson's claim, in mid-week, that the conference was “back on course” could not hide its failure. Progress on the 200 or so clauses of the final text was so tortuous that few expected a finished product by the close on Friday night. Another row seemed about to erupt over the definition of victims of discrimination, with Islamic countries desperate to avoid any mention of treatment of gays.

Who is to blame for the fiasco? Mrs Robinson conceded this week that she had to take responsibility for any poor preparation. It was clear several months ago, at preparatory meetings, that the Durban conference risked being hijacked by the Middle East issue or torn apart by the question of slavery.

Western governments, too, share responsibility. By sending junior delegates, they gave the message that they were not taking the conference seriously. If the final product is a shambles, producing not even a coherent set of intentions, that eases the pressure on them to tackle racism in their own countries. But vulnerable groups have missed a chance to push their interests on to the world's headlines, and the NGOs that campaign for them have not strengthened their influence over governments. The farce in Durban has done no one any good.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iran

The benefits of lashing

Sep 6th 2001 | TEHRAN
From The Economist print edition

Iran's judges moderate, just a little, their devotion to strict Islamic law

AP

Khatami has found Shahroudi intransigent

Get article background

ON AUGUST 31st two senior Iranian clerics praised the public whippings so energetically practised in Afghanistan and Saudi Arabia as a good way of fighting crime. Muhammad Khatami, Iran's president, furiously disagreed. He called their comments "unacceptable". If there is one thing that refined, Shia Iranians like Mr Khatami cannot abide, it is being told to admire the ostentatiously brutal justice meted out by their Sunni neighbours.

But Mr Khatami's outburst betrayed a more profound frustration. Over the summer, fearful that "social crimes" such as prostitution, fornication and drinking alcohol were undermining society, conservative clerics have united to defend dozens of public lashings and two public hangings, as well as the execution by stoning of at least two women in jail. Some of the whippings have been carried out in busy squares in Tehran. Each incident has served to remind Mr Khatami, a student of the European Enlightenment, of his failure to persuade the judiciary to reform.

No one living under Iran's Islamic government dares object to the theory behind such penalties. They crop up in the *sharia*, Islamic law, and enjoy divine sanction. Many Iranians agree that what they consider immoral and unIslamic behaviour threatens the social fabric. Some may even endorse the odd show of public brutality, as a warning to others. But in fact such public punishments have been rare, even amid the religious zeal that followed the Islamic revolution of 1979. A balance was struck back then between common law and traditional Islamic justice—allowing judges, for example, to jail thieves rather than order the amputation of their limbs.

Mr Khatami, as a democrat (at least by Iran's standards), reckoned that public opinion should determine whether or not the public floggings continue. Ayatollah Mahmoud Hashemi Shahroudi, the head of the judiciary and the man who ordered the public chastisements, claimed the public liked them. The dispute that followed was defused to some degree on September 6th, when the judges agreed to transfer their authority to carry out such punishments to the police. The whippings should now get rarer, though they will not stop.

It is all a far cry from 1999, when Mr Khatami's reformist supporters gave Mr Shahroudi's appointment, in place of Ayatollah Muhammad Yazdi, a cautious cheer. Under Mr Yazdi, the judiciary had become more conservative than ever. Civil and criminal courts had been merged and interrogators and prosecutors sacked, with their duties allocated to judges who became all-powerful and overburdened. To shoulder the new workload, Mr Yazdi had appointed hundreds of young judges who were simply not up to the job.

On taking up his post, Mr Shahroudi won support for a bold pledge to overhaul the "wreck" he had inherited. He supported restoration of the old system of specialised courts and prosecutors, and the draft of a bill to this effect is now before a parliamentary commission. With his distant origins—he was born and brought up in the Iraqi shrine city of Najaf—and his aloofness from politics, many predicted that he would avoid falling into the clutches of the hardliners.

But Mr Shahroudi's approach to Islamic law has turned out to be intransigent, and the whiff of politics more pungent. Under Mr Yazdi, reformist journalists were tried openly, and before juries. Many of the dozen-odd journalists who have been jailed since Mr Shahroudi's appointment were tried in closed courts

without them. Earlier this year a judge gave jail sentences to eight reformists for appearing at a conference in Berlin. In March and April more than 60 members of a nationalist group were arrested on flimsy suspicions that they had been planning to overthrow the regime. (Fifteen have been released on bail.) Judges have also come up with a novel application of an old law empowering them to confiscate the “vehicles” of troublemakers; they decided that some reformist newspapers were “vehicles”, and closed them down.

As an appointee and confidant of Ayatollah Ali Khamenei, Iran's supreme leader, it is possible that Mr Shahroudi is doing only what he thinks his boss wants. But he seems to believe in his mission, and does not hide his contempt for the efforts of reformist deputies to monitor judicial abuses. Three deputies have been given prison sentences this summer for speaking out of turn—an apparent violation of their constitutional immunity. Mr Shahroudi has appointed hardliners to two senior positions in the Tehran judiciary, and has accepted the resignations of 57 respected but demoralised judges. He does not think that respecting human rights “means defending the rights of killers and insurgents”.

It appears that Mr Khatami, who is a charming arm-twister, may have persuaded Mr Shahroudi to moderate a little. His intervention helped secure the release on September 2nd of Tamineh Milani, a film-maker, who had been arrested for, among other things, associating with “counter-revolutionary” groups. But the president's longer-term goal, the reform of the judiciary, remains a dream. Some senior ayatollahs recently declared their absolute opposition to modernising Iran's Islamic law. According to the head of the supreme court, a word from Mr Khamenei would have been enough to interrupt the lashings. He, however, has stayed silent.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Libya

Beckoning and rebuffing

Sep 6th 2001 | CAIRO
From The Economist print edition

An erratic charm offensive from Tripoli

A BLUNT ultimatum came from Libya to American oil companies this week. Either you make use of your concessions here within one year, said the Libyans, or you are out for good. Typically hostile bluster, one might think, from a country that has been snarling at America since at least 1805, when the marines invaded in an effort to free some American sailors. But Libya has proved surprisingly loyal to the American firms that pioneered its oil industry—Marathon, Conoco, Exxon Mobil, Occidental, Amerada Hess. Despite tempting offers from elsewhere, it has kept their licences on ice for the 15 years since Ronald Reagan ordered them to leave.

The gap between Libya's gruff words and beckoning gestures has been growing ever since United Nations sanctions, imposed as punishment for Libya's involvement in the Lockerbie explosion, were lifted in 1999. The signals can be confusing. During the September 1st celebrations to mark the 32nd anniversary of the coup that brought him to power, Muammar Qaddafi, Libya's ruler, accused the United States of cooking up the AIDS virus in its military laboratories. A day later his foreign minister, Abdel Rahman Shalqam, told his visiting Italian counterpart, Renato Ruggiero, that Libya wanted better ties with the United States. Mr Ruggiero later said he had been entrusted with a letter from Colonel Qaddafi to President George Bush, presumably not about AIDS.

The conciliatory tone was doubly surprising, since only last month the United States had extended its unilateral embargo on Libya, first enacted in 1996 to punish the country for supporting terrorism, for another five years. Not only does the law prevent American companies from operating in Libya, but it authorises the president to punish any foreign enterprise that invests more than $20m a year in the Libyan energy industry.

In the same vein, the United States has responded sharply to Libya's one-year “use-it-or-lose-it” deadline. Any action to prejudice the interests of the American oil companies, said a State Department spokesman, would make it difficult for Libya to develop the kind of relations with America that it claims to want.

The United States' stubbornness, so annoying to Libya and American oil companies alike, has not proved very effective. Libya remains a major oil producer. Its large, accessible, high-quality and mainly unexplored reserves make it a particularly attractive place in which to invest. Half a dozen European oil companies have been rapidly expanding their activities in line with Libyan plans to raise production capacity by a third, to 2m barrels a day, within five years. Negotiations for a $5 billion project to export natural gas to Italy are in their final stages.

In a marked shift from Colonel Qaddafi's past championing of state socialism, Libya has also taken to encouraging foreign investment in other industries, including agriculture and tourism. This is partly prompted by fears of growing unemployment, yet it also seems to reflect a general waning of revolutionary stridency. Colonel Qaddafi recently granted amnesties to 107 political prisoners, including at least one opponent of the regime who had been held in solitary confinement since 1970.

Of course, hundreds more remain behind bars. Moreover, the colonel's foreign policy continues to raise western hackles, particularly his backing of unsavoury African rulers. Libya has both praised Robert Mugabe's seizures of white-owned land in Zimbabwe and helped him out with a $360m deal to provide Libyan petrol to his fuel-starved country.

Yet even in foreign affairs the language has softened notably. Mr Shalqam was recently quoted as saying that it was time for Arabs and Jews to learn to coexist. At last spring's summit of Arab leaders, Colonel

Qaddafi himself drew gasps by suggesting that the old enemy Israel should be invited to join the Arab League. If only that nicer, more reasonable side could be displayed a little more often.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Palestinian refugees

In the camps, sheer frustration

Sep 6th 2001 | BEIRUT AND AMMAN
From The Economist print edition

Exiled Palestinians sit out the intifada

AP

They want to join in

NEWS travels fast in Ain Hilweh, a maze of alleys tangled with makeshift hook-ups to water, electricity and satellite dishes. Today's news happens to be good, at least for the 40,000 refugees packed on to this Lebanese hillside. Palestinian gunmen in faraway Gaza have raided an Israeli base, killing three enemy soldiers. But the cheers rippling down the narrow market street belie deeper anxieties.

The *intifada* has explosively reignited passions among the world's 3.5m Palestinian exiles, and nowhere more so than among the 600,000 scattered among refugee camps in Lebanon, Syria and Jordan. A year ago Israel and the Palestine Liberation Organisation (PLO) were, for the first time ever, negotiating over the refugees' "right of return". The collapse of talks and the eruption of violence have stirred up bitter memories, thwarted hopes and rage.

For many refugees, the worst part is not being able to join in. "You think the suffering of those on the 'inside', who are fighting and dying is bad," says a senior PLO commander in Lebanon. "For us the pain is worse, because we are forcibly prevented from martyrdom." Two borders away in Jordan, a butcher at the sprawling Beqaa Camp echoes the sentiment. Traitorous Arab governments, he says, try to distract the refugees with empty promises and trashy television, when what they yearn for is *jihad*.

Apart from holding rallies, sending donations and sucking in news broadcasts like chain-smokers, there is not much that camp-dwellers can do. In Lebanon the regular army keeps keen guard at every exit from the country's 12 refugee camps, just in case someone with a gun might think of sneaking to the Israeli border. Gesturing at a heavy chain-link fence that separates Ain Hilweh from the neighbouring town of Sidon, one Palestinian jokes that it reminds him of the homeland: it is just like the Erez checkpoint between Gaza and Israel.

Security in Jordan's camps is less visible, though plainclothes police keep a watchful presence. The government recently took the further precaution of requiring licences for rallies and marches. In Syria such precautions are not necessary, since the only demonstrations allowed are government-sponsored anyway.

Frustration is attracting growing numbers of camp-dwellers to Islamist groups. Through collections in mosques and a distribution network inside the occupied territories, they channel funds to the *intifada* with great efficiency. For those who cannot pay, the Islamists offer the comfort of praying for the liberation of Palestine. The stark, simple ideology of groups such as Hamas also raises their appeal.

As a result, phrases from the Koran now pepper conversation in the camps. "The Holy Book says we must fight the Jews to the end, even if only in our hearts," asserts a pharmacist in Jordan's Gaza camp, near the Roman ruins of Jerash. A crowd of robed and heavily bearded men leave the nearby mosque, a bright new four-storey structure that towers over the surrounding breeze-block huts. One of them declares that this is not a war over territory, but rather a flat-out war of religion. It will not stop, he says, until the Jews leave Palestine.

These are scary words, even to the many Palestinians who still hope for compromise. Scarier still is the growing influence of ultra-radical groups. Yasser Arafat's moderate Fatah faction controls most Lebanese camps, for example, but this has not stopped Islamist militants in Ain Hilweh from fire-bombing several

cafés.

Such nasty account-settling is evidence of the continuing social tension in the camps. This is particularly true of Lebanon, whose 300,000 Palestinians suffer not just from poverty and exile but from a range of discriminatory laws aimed at making them emigrate. They are explicitly forbidden to work in virtually any qualified profession, and a recent rule now also makes it illegal for “stateless aliens” to own property. At Rashidia camp, which is close to the Israeli border, refugees have been banned since 1992 from bringing in any kind of building material. “Not even stones to cover our graves,” says a camp official, though he admits that the Lebanese army is not averse to bribes.

Things are far easier in Jordan, where the vast majority of Palestinians hold citizenship. Here, the largest fear is that the world is simply losing interest. Basic services for all the Palestinian camps are still provided by UNRWA, one of the United Nations' oldest and largest agencies. A decade of cuts, combined with the camps' growing population, means that its primary schools now work two shifts, with 50 children to a classroom.

An UNRWA official in Amman, like most of its employees himself a refugee, says he grew up “living under an UNRWA roof, sleeping on an UNRWA blanket, eating UNRWA rations, studying in an agency school using agency textbooks.” Some families are now into their fourth generation in the camps. He wonders if the fifth generation of exiles, too, will be living on the world's handouts.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Seychelles

Wooed by cheese spread

Sep 6th 2001 | VICTORIA
From The Economist print edition

A fair amount of trouble in paradise

AP

AT 65, most people think about retiring. Not Albert René of the Seychelles, who, after 24 years in power, called an early presidential election for last Sunday and secured himself a third five-year term with 54% of the vote.

Mr René's main rival, Wavel Ramkalawan of the Seychelles National Party (SNP), is also claiming a victory. Mr Ramkalawan, a former Anglican minister, gathered a respectable 45% of the vote, more than double his tally at the last election in 1998, and the SNP took nine of the 22 electoral districts on the main island of Mahé, its best showing ever. As on previous occasions, Mr Ramkalawan claimed that Mr René and his Seychelles People's Progressive Front (SPPF) won only because he had used government money and intimidation to bring out his supporters. A typical bad loser, responded the freshly re-elected president.

Mr René has always been known for strong government, hardly surprising in a man who first seized power in a coup in 1977. The man he overthrew, James Mancham, chose not to stand in this week's election. More surprisingly, he hinted that his own supporters should vote for Mr René rather than Mr Ramkalawan. When asked if those who sympathised with his Democratic Party should vote for the SNP to show solidarity against the SPPF, Mr Mancham replied, “When you are in a comfortable bed, you don't roll off it and into a tin bath.”

Under Mr René's iron-fisted rule, the Seychellois have enjoyed a good life. Free schooling and health care and well-built infrastructure make the islands seem a paradise compared with neighbouring Indian Ocean islands or continental Africa. Only recently have people begun to wonder about Mr René's ability to manage the economy. Their doubts showed in his reduced majority: three years ago his share of the vote was 67%.

The main problem is a shortage of foreign exchange. The Seychelles' isolated position makes them almost totally reliant on imports, and most staples are controlled by the Seychelles Marketing Board, a state monopoly left over from one-party days. The Seychelles rupee is pegged at an artificially high level, and for some time the government has been struggling to control a burgeoning black market in hard currency. Entrepreneurs and suppliers thinking of investing in the Seychelles are warned on the British High Commission's website that settlement of invoices is likely to take some time.

Tourism, the main source of foreign exchange, is so vital to the economy that it influences politics, too. New hotel projects and development schemes estimated to be worth $450m, involving companies from the Far East, South Africa and Mauritius, are currently under discussion. Mr René may well have felt obliged to call the election early to assure hesitant investors that there would be a steady hand—his—at the helm for some time to come.

For ordinary Seychellois, the supermarket shelves are the best barometer of government performance. For several years there have been periodic shortages of various “luxury” goods, including disposable nappies, computer supplies and foreign magazines, all of which have to be bought with foreign exchange. SNP supporters knew they might do well in the election when they spotted boxes of processed cheese spread in the supermarket for the first time in three years. This, they assumed, was a sign of the government's earnest wish to woo voters.

So far, Mr René has resisted calls from the IMF and the World Bank to devalue the rupee. External debts to the African Development Bank and to the British government, the former colonial power, are in arrears. Tough currency-control laws now try to ensure that tourists pay for all goods and services in hard currency, and that foreign companies do not repatriate their profits too swiftly.

“The Boss”, as Mr René's supporters call him, is an enduring figure. After the 1977 coup he brought his own brand of socialism to the islands, foiling foreign-backed counter-coups and an army revolution, and successfully weathering the transition to multi-party democracy. This, his third term, must be his last. He may need more than a few boxes of cheese spread to see him through the tough times ahead.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Belarus

A rotten state

Sep 6th 2001 | MINSK
From The Economist print edition

Reuters

President Alexander Lukashenka (above) looks set to win a rigged election. Bad news for everyone—especially the poor Belarussians

Get article background

A MEANINGLESS election in an unimportant country. That seems to be the way that the rest of the world is regarding the presidential election on September 9th in Belarus, a country in the middle of Europe that makes even Russia, its neighbour to the east, seem prosperous and well governed.

But writing the poll off as a large yawn would be a mistake. Belarus's plight matters to its western neighbours, and should matter to Russia too, although the Kremlin shows little sign so far of wanting to improve things there. The country is the weakest link in the troubled lands that lie between the Baltic and the Black Sea. It worries the West as a source of arms (for example, upgraded air defence for Saddam Hussein's Iraq), crime (particularly electronic fraud), sex slaves and illegal migrants. The use of death-squads against political opponents, censorship and official xenophobia set a nasty example for politicians in countries farther east.

The only plausible opposition candidate has received warnings for producing illegal T-shirts

Belarus's links with Russia could also prove an unfortunate model for other former Soviet republics. Although the country is nominally independent, it has very close military, security and economic ties with Russia. Mr Lukashenka speaks fondly of recreating the Soviet Union, and of the Russian-Belarussian Union, a long talked-about but so far vaguely defined outfit, as a first step. There seems little doubt about the election's outcome. Mr Lukashenka has a solid base of support in the countryside and among poorer, older and less-educated voters, who fear that (as in other East European countries) they would be the losers in any economic reform. Moreover, he has all the state's resources behind him, meaning payroll votes from large numbers of public servants, soldiers and so on. Almost all the official media favour him. Opposition candidates may by law spend only $14,000 on their campaigns, and have faced constant harassment. Several strong-looking ones were refused registration or have mysteriously pulled out.

The remainder have united around Vladimir Goncharik, a decent but uninspiring ex-apparatchik. Some wonder whether even he will still be on the ballot by polling day. On September 3rd he received a written warning from the election commission for the serious offences of producing illegal T-shirts and holding unauthorised campaign meetings.

Mr Goncharik's main hope was that Russian television—widely preferred in Belarus to the stunningly sycophantic and dull local output—would give him some favourable coverage, or even report damningly on Mr Lukashenka's misdeeds. That failed to happen. After some opening salvoes, the main Russian channels have all but ignored the election, presumably on the Kremlin's orders. Mr Goncharik remains virtually unknown; the opposition's evidence of state-sanctioned murder, illegal weapons sales and other dubious dealing has little chance of reaching voters. Russia's president, Vladimir Putin, visibly dislikes his earthy counterpart in Belarus, but said firmly in July that he “could not and would not'' interfere in its internal affairs.

How big a margin of victory does Mr Lukashenka want?

The only real uncertainty in the election is how big a margin of victory Mr Lukashenka wants. In 1994, as the challenger, he won, more or less fairly, in the second round with more than 80% of the vote. Some people in the presidential administration may regard anything less than that as a defeat—although such a result would require embarrassingly blatant fraud. Others think that a comfortable margin over the 50% needed to win in the first round would be enough, and would need only discreet ballot-rigging.

The opposition already assumes that there will be fraud, and is planning a big protest in the centre of Minsk on Sunday evening. Inspired by the student-led upheavals last year in Yugoslavia, some Belarussians believe people power can work in their country too. “Change will come through mass protests against [election] falsification and murder,” says Andrei Sannikov, a former deputy foreign minister turned human-rights campaigner. Under American tutelage, Belarussian youth groups have met Yugoslav activists. “They help us greatly to believe that we can do it,” says Alexander Otroshenkov of the largest anti-Lukashenka outfit, Zubr (Bison).

On past form, though, such engaging bravado will result in no more than a small gathering, quickly dispersed by police truncheons and water cannon. Most Belarussians, even if they dislike Mr Lukashenka, have little desire to have their heads cracked for an opposition they regard as a bunch of cranks, hotheads, mediocrities and foreign stooges.

The really big question is what Mr Lukashenka does with his victory. One likely priority will be revenge. He threatened this week to expel after the election two top westerners in Minsk: Hans-Georg Wieck, the wily local representative of the Organisation for Security and Co-operation in Europe (OSCE), the continent's main post-cold-war talking-shop; and the American ambassador, Michael Kozak, an old Central America hand, who has a penchant for provocative public comparisons between Belarus and countries he has tried to subvert in the past, such as Cuba and Sandinist-led Nicaragua.

The West too will probably want to downgrade official relations still further, especially if the OSCE report on the election concludes that Mr Lukashenka's victory was the result of fraud. But at least foreigners can go home; Mr Wieck is due to retire anyway. Their Belarussian protégés, especially those who used to be part of the establishment, will not be so lucky. Mr Lukashenka this week called Mr Goncharik “a traitor”.

What Mr Lukashenka does will also depend on Russia, which provides the cheap energy and barter deals that keep Belarus's Soviet-style economy clunking along. In return, Russia gets two useful military bases, plus, potentially, control over the country's main industrial assets when they come to be privatised, as well as clinging embraces from Mr Lukashenka. “We have always been together with Russia, and we shall be with this brotherly nation for ages to come,” the president told the voters this week. Like it or not.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Russia's far north

An ambiguous presidential visit

Sep 6th 2001 | SOLOVKI
From The Economist print edition

Did Russia's President Vladimir Putin go north to celebrate or repent?

AP

Putin and patriarch, penitent or proud?

WHAT was President Vladimir Putin trying to tell his people a few weeks ago when he journeyed to an extraordinary archipelago in the Russian Arctic that has by turns been a mighty monastic fortress, a dreadful Bolshevik prison camp and now, since the fall of communism, the home of a revived community of monks?

A former Kremlin adviser, Georgy Satarov, says there was a “coded message” in the president's decision to mark the tenth anniversary of the Soviet Union's collapse by visiting the Solovetsky Islands, often known simply as Solovki. Coded or not, what was the message?

Mr Putin used the visit to laud the achievements of the Russian state and the contribution of Orthodox Christianity, “without which Russia could hardly exist”. With the Orthodox church's patriarch, Alexy, at his side, he echoed the conventional wisdom of the Russian nationalist school, now back in fashion, by calling for the 500-year-old monastery to be fully restored. But he went on to say that “all peoples are equal before God”—adding, less plausibly, that Russia had always guaranteed that equality. So had he come to laud state power or to speak out for human rights? To bang the drum for Russian nationalism or to reassure ethnic minorities?

His message was in keeping with the archipelago's own peculiar ambiguity. For Solovki has been likened to the Garden of Eden, thanks to the luxuriance of the vegetation that sprouts in the fleeting Arctic summer, and helped in its early monastic days to draw hermits to its tranquil solitude. But then there is Solovki's other face. For most of the past 400-plus years, it has been a bastion of worldly as well as spiritual power. A magnificent Kremlin, with stone walls eight metres (26 feet) thick, betokened Russia's imperial might, comfortably withstanding a 19th-century British naval bombardment.

Then, in the 20th century, after the Bolshevik revolution, the archipelago became a terrible symbol of the cruelty of an over-mighty state. Tens of thousands of people were incarcerated and thousands died horribly, as the islands were converted into Lenin's first labour camp for “undesirables”. For Russians, Poles, Tatars, Caucasians, Jews and others, its “equality before God” was that of a mass grave.

Yet there are few public reminders of this nightmare to concentrate the minds of the few visitors who now sail here across the stormy White Sea or come in a weekly plane. A modest museum in a corner of the Solovetsky Kremlin devotes just one (very moving) room to the prison camp's horrors, but a notice from the curators laments that their money has run out. As for the 25 or so monks who are reviving the islands' spiritual life, they put their heart into commemorating the countless “new martyrs” who fell victim to Soviet cruelty—but only a visitor with the patience to attend their services would ever know it. Does President Putin think the archipelago a monument to Russian power or a terrible warning against its

excesses. Or both?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Multi-racial Poland

Football can help

Sep 6th 2001 | WARSAW
From The Economist print edition

A black Pole may have changed racial attitudes, at least a bit

POLAND had not qualified for a football World Cup since 1986, but last week it clinched a spot in next year's tournament in Japan and South Korea. Along the way, football-mad Poles have found a new hero in Emmanuel Olisadebe, their Nigerian-born striker, who last week scored—yet again—in Poland's 3-0 win over Norway. He may even have helped Poles to reflect upon their hitherto rather old-fashioned attitudes to dark-skinned people, still quite a rare sight in Poland.

Poles now affectionately call Mr Olisadebe, 23, “Czarniecki” after Stefan Czarniecki, a 17th-century general who defeated the Swedes: *czarny* means black in Polish. Poland's jovial coach, Jerzy Engel, reckons Mr Olisadebe has done more for race relations in Poland than decades of communist exhortation. “I cried when he kissed the Polish eagle,” admits a Warsaw stockbroker, referring to Mr Olisadebe's habit of kissing the national symbol on his football shirt after scoring a goal.

Mr Engel brought Mr Olisadebe to Poland in 1997 to play for Polonia Warsaw, the club he then managed. “It was hard, a 19-year-old African coming to Poland. It was the first time he had seen snow.” When he first pulled on Poland's national jersey, Mr Olisadebe was pelted with bananas. His team mates were appalled. “It was as if they were throwing bananas at all of us,” says Mr Engel. Mr Olisadebe stuck it out, though he now plays his club football for Panathinaikos in Athens. But his heart, he says, lies in Poland. He understands Polish after a fashion, has a blond Warsaw wife and, to Polish grannies' delight, has even taken a liking to *zurek,* a traditional soup.

He joined the national team at a desperate time: Poland had not scored a goal in ten games. A downcast Mr Engel was watching a club match with Zbigniew Boniek, a former star whose eye Mr Olisadebe caught. “Let's make him a Pole!” Mr Boniek exclaimed. Mr Olisadebe, who was finding it tricky to travel around Europe on a Nigerian passport, agreed. The Polish president, Alexander Kwasniewski, had the five-year residency requirement waived. Mr Olisadebe has since scored nine goals for Poland in 11 games.

Mr Kwasniewski says he has been telephoned by Leonid Kuchma, president of neighbouring Ukraine, which Poland beat on its way to qualifying for the World Cup. “Well done,” said the Ukrainian. “But let me tell you that that African is no Pole.” Most Poles beg to differ.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

France and globalisation

In search of a (leading) role

Sep 6th 2001 | PARIS
From The Economist print edition

A French bid to lead the debate on globalisation

AT FIRST glance, when Lionel Jospin, France's prime minister, said in a recent television interview that France would encourage its European partners to discuss adopting a “Tobin tax”, it looked like a spot of straightforward electioneering. The tax was originally the idea of James Tobin, an American economist, who argued that a small levy on capital movements would discourage speculative financial flows of the sort that can damage wobbly economies (see article). Anti-globalisation groups, including a vocal French one called Attac, have embraced the tax as a potential source of revenue for poor countries—somewhat, it should be said, to the dismay of its inventor. So, by promoting it, surely Mr Jospin was just playing to the galleries on the left, in a bid to boost his credentials for France's forthcoming presidential election?

Actually, there may be more to it than that. The French press took Mr Jospin's words at their political face value. For a time, and sometimes to his discomfort, the prime minister dominated the front pages and the magazine profiles. Two revelatory books have recently been published, triggering minute examination of Mr Jospin's radical past in search of clues to his elusive character. Although the voters will not have their say until next May, there is little doubt that France's election campaign is under way. This week Jean-Pierre Chevènement, a former interior minister, tossed his hat into the presidential ring (see article).

Mr Jospin briefly looked silly when Laurent Fabius, the finance minister and himself a possible dark-horse candidate for president, was quoted as pooh-poohing the Tobin tax. In August last year he sent a report to parliament in which he wrote that there was little prospect of an international consensus on it and that its introduction would simply drive capital to unregulated off-shore markets. But the tax is only part of the story.

Mr Fabius has not changed his view of the Tobin tax. Instead he has sought to broaden the anti-globalisation debate through an essay in *Les Echos*, a financial newspaper. Europe, he points out there, is uniquely placed to lead the discussion of globalisation, thanks to its experience of regional integration and its balanced institutional framework. The European spirit leans towards the goal of better global government, he said, whereas George Bush's America is more inclined to unilateralism. Mr Fabius identifies two main areas for action: global economic regulation and protection of the environment. As for the Tobin tax, he argues that a 10% tax on arms sales would be a far more effective way of helping the poor world.

France, it seems, has spotted an opportunity to stamp its leadership on a debate about globalisation that politicians now reckon is not going to go away quickly. Although Mr Jospin's remarks about the tax were what grabbed headlines, in his interview he too had spelt out his government's keenness for a proper debate about globalisation involving countries, non-governmental organisations and international outfits such as the World Bank and the IMF. Although the prime minister did not say it in so many words, what better way for post-colonial France to reassert its moral and intellectual authority?

The point has not been lost on France's European partners (or rivals). This week Gerhard Schröder, Germany's chancellor, said that Germany and France should lead a debate on speculative capital flows and should examine “weak spots” in the global financial system. Mr Schröder has little faith in the Tobin tax, but he has sharp political antennae. The next day he sat down for dinner in Berlin with none other than Mr Jospin. Like them or not, anti-globalisation protesters have succeeded in altering political debate at the top.

Also present at the Berlin dinner was France's president, Jacques Chirac, fresh from a minor victory in one of the several investigations he faces into alleged corruption. Mr Chirac has been notably silent since

the globalisation debate jumped to prominence. Now he has two reasons to speak up. As president he will be part of any serious French initiative, so he will want to play the statesman. And his current lead in the polls could prove as evanescent as Mr Jospin's sudden interest in the Tobin tax. Mr Chirac is likely to set out his own thinking on globalisation soon.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

France's presidential hopefuls

Also-rans or party-poopers?

Sep 6th 2001 | PARIS
From The Economist print edition

There are only two real candidates—but accidents do sometimes happen

EPA

Laguiller keeps on struggling

NO PRIZES, say the pundits, for guessing who will be the two candidates fighting it out at the finish next May in the race to be the next president of France: the conservative Jacques Chirac, hoping to be re-elected for a second term, and his Socialist prime minister, Lionel Jospin. But what if the pundits are wrong? What if one of the favourites stumbles? Surely the lesser candidates lining up to run in the first round, in April, of the two-round contest have the right to dream.

Even so, the odds look hopeless. Take Mr Jospin's likely rivals on the left. **Arlette Laguiller**, leader of the Trotskyite Workers' Struggle, is an almost iconic figure: in 1974 she was the first woman to run for president. Last time, in 1995, she won 5% of the vote. One poll says this time she may get 7%. If so, she might pip **Alain Lipietz**, a former Maoist who has just, against expectations, been chosen to head the Greens' bid. She may even beat **Robert Hue**, the Communists' leader, who got nearly 9% in his last go. Indeed, if the pollsters are right, she would match **Jean-Pierre Chevènement**, leader of the Citizens' Movement and, until last year, Mr Jospin's robust interior minister. Clearly, Mr Jospin, apparently first choice in the first round for 26% of the voters, has little to fear on the left.

On the face of it, the same is true for Mr Chirac on the right. The extreme, indeed racist, right is split between the National Front's thuggish **Jean-Marie Le Pen**, with a predicted 7%, and the smoother **Bruno Mégret** of the National Republican Movement with a mere 1%. Move away from the extremes and **Charles Pasqua**, the ageing leader of the Gaullist Rally for France (a breakaway from Mr Chirac's Rally for the Republic), might get only 5%, while **Alain Madelin**, the Thatcherite-thinking president of the Liberal Democrats, and **François Bayrou**, boss of the centrist Union for French Democracy (UDF), would level-peg at 6%. A clear run into the second round, then, for Mr Chirac, who is today predicted to win 26% of the first-round vote?

Not necessarily. So far Mr Chirac's popularity has been impervious to the scandals being attached to his name, from rigging party finances to enjoying luxury holidays at the taxpayers' expense. If it stays high, all his rivals on the right can hope for is to influence his policies or secure a promise of high office in his next term. But forgive the rivals, especially Messrs Madelin and Bayrou, if they privately conjure up a different sequence: Mr Chirac is suddenly crippled by one scandal too many and either withdraws from the fray or is deserted by his supporters. All at once the also-rans become could-wins.

Absurd? Perhaps, but they recall that in 1974 one Valéry Giscard d'Estaing (founding father of Mr Bayrou's UDF) came through against the odds to overtake the Gaullist prime minister, Jacques Chaban-Delmas, in the first round—and went on to beat François Mitterrand in the second.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Conferences in Italy

Where's safe?

Sep 6th 2001
From The Economist print edition

Italy's government is looking for ways of avoiding the anti-globalisation mob

AFTER Italy's last bleak experience of playing host to an international shindig, when protesters and police made mayhem in Genoa at a meeting of the G8 group of rich countries in July, the government is finding it hard to know how—or where—to run its next show on the global stage. The UN's Food and Agriculture Organisation (FAO) is due to hold its next jamboree, called the World Food Summit, in November. Oddly, people in an array of Italian places, some of them pretty rum, are itching to play host. They all want to take a chance—and cash in on the 3,000 delegates and as many media people who are likely to turn up.

Rome, where the FAO has its main office, was the original choice. But Italy's prime minister, Silvio Berlusconi, does not want trouble on his doorstep. The FAO's head talked things over with Mr Berlusconi this week. The food summit, they agreed, would still be held in Italy, but not in Rome.

So where? A commission made up of FAO people, Italian diplomats and interior-ministry officials will ponder the matter. Meanwhile Italy's mayors are already plugging their cities' credentials. Those of Fiuggi, near Rome, Montecatini and Chianciano in Tuscany, are offering their thermal delights. Spoleto, in Umbria, hints that its medieval castle would be ideal for keeping the mob at bay. Brindisi, in Apulia, is puffing up the quality of its airport, one of the FAO's pre-requisites. Nettuno, a resort near Rome, is another candidate. Even the denizens of remote and tiny Pantelleria, a Mediterranean outcrop west of Sicily, say they can oblige. Another grim choice would be the large and hideous compound near Rome that serves as the interior ministry's training school.

The current favourite is Rimini, with its big airport, plethora of hotels, spacious conference centre, and people whose money-making instincts are stronger than their fear of street strife.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The European Union and Cyprus

Crisis ahead

Sep 6th 2001 | BRUSSELS
From The Economist print edition

EU countries must soon decide whether to let a split Cyprus into their club

CHRIS PATTEN, the EU's foreign-affairs commissioner, describes its plan to bring up to 12 more countries into the club as an invitation "to join in this wonderful experiment of arguing about fish quotas instead of shooting at each other". Put less colourfully, the EU sees its expansion as above all a chance to spread peace and stability eastwards across its continent.

That was certainly what most of the EU's strategists hoped when they decided to push ahead with negotiations to bring a divided Cyprus into the fold. The idea was that both sides in the dispute, realising the benefits of membership, would be compelled to settle their differences. When the Turks on the northern side of the island refused to budge, the EU hoped that the prospect of the internationally-recognised Greek part joining without the Turkish bit would prod them into being more flexible. So far, no such luck. Indeed, the growing prospect of the EU letting in the (Greek-run) Republic of Cyprus may actually provoke a conflict rather than solve one.

People in Washington and Brussels involved in the Cyprus imbroglio now fear that if the Greek-Cypriot bit of the island is admitted, perhaps in the next three or four years, the Turkish reaction will be extremely fierce. Pentagon officials have been briefing that, at a minimum, Turkey is likely formally to annex the part of the island it took over in 1974. They think Turkey may even try to blockade Cyprus. Andrew Duff, a British Euro-MP who is vice-president of the European Parliament's liaison committee with Turkey, says that his talks in Ankara suggest to him that a Turkish blockade of Cyprus would be entirely possible, because "the ultra-nationalists in the parliament and the armed forces would insist on it."

Bluff, say the Greek-Cypriots and their supporters. The Turks are rattling sabres because they want to block Cyprus's accession to the EU on any terms but their own. The EU, say the Greeks, should hold its nerve both for moral reasons and because impoverished Turkey, which itself wants one day to join the EU, would never dare to provoke a war over Cyprus. The Greeks also point to recent unrest among Turks in their northern slice of the island as evidence that Turkey's position there has become weaker.

For its part, the EU is still hoping against hope that the imminent completion of negotiations with the Republic of Cyprus will finally force the island's Greeks and Turks to negotiate a settlement to allow the EU to embrace a united and peaceful island. In other words, rather than exacerbate the Cyprus dispute, EU accession could still actually solve it.

For most of the past year UN-sponsored talks on Cyprus have been in effect dead. In recent weeks there have been a few new tentative contacts. Günter Verheugen, the EU's commissioner in charge of enlargement, has met Rauf Denktash, the Turkish-Cypriot leader, for the first time in more than a year. Kofi Annan, the UN's secretary-general, has also met him and has dispatched Alvaro de Soto, his (Peruvian) special envoy on Cyprus, to see if he can get "proximity talks" on a settlement restarted. This week he asked the Greek-Cypriots' leader, Glafkos Clerides, and Mr Denktash to start chatting again, through UN intermediaries, in New York next week. No go, said Mr Denktash.

Even if talks do begin again, there is scant expectation of success. Assuming that the islanders fail to strike a deal before the EU's accession negotiations with the Greek-Cypriots are complete, perhaps by the

end of next year, then what will the EU do? Admit the Greek-run part of Cyprus (in legal terms the whole island) and risk sparking a crisis, perhaps even a war, between Greeks and Turks, even though the governments in Athens and Ankara have been getting along better than they have for some time? Or keep Cyprus out and run the frightening risk that enlargement—the EU's top strategic priority—may be altogether stymied if Greece, one of the Union's 15 existing members, vetoes an enlargement that excludes Cyprus, as it is entitled to?

Counsels within the EU differ. Mr Verheugen's officials are tilting towards admitting a divided Cyprus—and risking the Turkish reaction. They cannot stomach the idea that the hopes of nearly 80m Poles, Czechs and other Central Europeans to join Europe's premier club might be dashed by the inability of some 750,000-odd islanders to settle their differences. But people around Javier Solana, the EU's high representative on foreign policy, incline the other way—a view that may reflect Mr Solana's own background as a former secretary-general of NATO, in which Turkey is an important member.

In the end, though, it is for the EU's current 15 members to decide. Some Central and Eastern European applicants suspect that the French are lukewarm about bringing in new members and would be quite happy if Cyprus blocked the process. But other EU countries have misgivings too. The Dutch parliament, for one, has already passed a resolution saying that the EU should not admit a divided Cyprus. Either way, a crisis looms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Hungary's government

Does it like the market?

Sep 6th 2001 | BUDAPEST
From The Economist print edition

The state has stopped retreating from Hungary's economy

Reuters

Orban likes intervening

VIKTOR ORBAN, Hungary's prime minister, is young, right-of-centre and fiercely anti-communist. In many countries—including some in Central Europe—that would make him a keen disciple of the free market. Not, however, in Hungary. After one of post-communism's most successful economic-reform programmes, the government now seems to be heading in the opposite direction.

Mr Orban was elected in 1998 on a wave of anger directed at the market-oriented austerity policies of his predecessors from, confusingly, the Socialist Party. Since coming to power he has never sounded like a market enthusiast, and some of his associates have sounded positively hostile towards foreign investors, who dominate Hungary's economy.

Still, the prime minister did leave many of the economic foundations laid by the Socialists in place. Trusted free-marketeers were given important jobs. Zsigmond Jarai, a former head of the Budapest Stock Exchange, became finance minister, while Attila Chikan, an academic economist, became economics minister. Gyorgy Suranyi, the respected head of the independent central bank, kept his job.

The prime minister was rewarded with economic growth that consistently ran at around 5% a year and a continuing healthy flow of investment from abroad. Yet nearly four years on only Mr Jarai remains in a senior position, now as head of the central bank. Mr Suranyi was refused a second term of office, and Mr Chikan sacked. With such restraining influences gone—and an election due next spring—Mr Orban's government has been sounding ever keener on a strong economic role for the state.

Particularly painful for some companies—especially Mol, the mainly-private national oil-and-gas company—has been the policy of holding down state-controlled prices in order to curb inflation. Unable to raise prices for natural gas, of which it is a monopoly supplier, to world levels, Mol has suffered huge losses in its gas business. State ownership has also staged a comeback. The government has dropped plans to privatise Postabank, a bank nationalised in 1998 to prevent its collapse. Instead, it will team up with the state-owned post office and another state-owned bank to form a state-run banking and communications conglomerate. Similarly, some privately-run motorways have been nationalised, after their franchise-owners ran into trouble; new motorway-building is now financed by the state-owned Hungarian Development Bank. The cabinet, meanwhile, is now promising state largesse for such causes as spa tourism and Budapest's bid to stage the 2012 Olympics.

Much of this spending is allocated under the government's Szechenyi plan, named after a 19th-century reformer. Advertised with sentimental posters about how Hungarians are daring to be great again, this development programme is presented, as are other economic policies, as part of a drive to restore Hungary's battered national pride.

All of this is enough to worry many economists. But not enough to make them despair. Hungary's economy, they point out, is already as liberal as some West European ones. The state has little room for manoeuvre. Even such an apparently radical step as setting up a state-run banking group is unlikely to make much difference in an industry dominated by private, foreign institutions. The government may be accused of setting a poor example, but it is not, as yet, threatening Hungary's new-found economic health.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

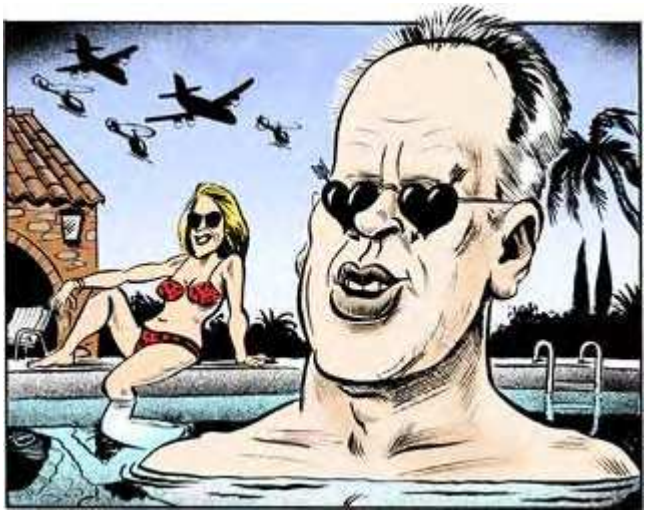
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Charlemagne

Rudolf Scharping

Sep 6th 2001
From The Economist print edition



Germany's defence minister has chosen the wrong moment to be laughed at

POOR Rudolf Scharping. His timing, to say the least, was unfortunate. On the very day that Chancellor Gerhard Schröder and his cabinet were meeting in Berlin to decide whether to send German soldiers “into harm's way” in Macedonia, pictures of the country's defence minister, hitherto famous for his deadly dullness, were splashed across nine pages of a popular magazine, showing him cavorting with his new squeeze, a twice-married countess, in a Majorcan hotel swimming pool.

Bad luck—but bad judgment too. For the photographs had been taken with Mr Scharping's full approval. Time, he must have thought, to brighten up his image. No more the arid, strait-laced, workaholic, socialist politician. Spring forward a jovial funster in swimming trunks, hand in hand with the glamorous Kristina Pilati von Thassul zu Daxberg-Borggreve (well, all right, most of this aristocratic mouthful came from the first of her two marriages). In any event, it was not quite the image you would expect Germany's military boss to project, as his troops prepared to join some 7,000 of their compatriots already trying to keep the Balkan peace, in Bosnia and Kosovo.

From Majorca to Macedonia to Majorca, courtesy Lutwaffe

But worse was to come. Obliged to interrupt his Majorcan sojourn a week later to take part in a crucial vote in parliament on whether German troops should actually go to Macedonia, Mr Scharping—it was soon revealed—had commandeered a military flight to whisk him back to Majorca for one more night with his beloved, before flying on again 1,600km (1,000 miles) the next day to visit the boys in Macedonia, only to return to the Spanish island that same evening, again by courtesy of the Luftwaffe. The detour may have cost taxpayers as much as DM200,000 ($91,000) at a time when Germany's oversized, ill-equipped and ageing armed forces are crying out for every pfennig. The previous (Christian Democratic) government had already slashed defence spending from 3.6% of GDP in 1990 to a miserly 1.5%, but the Social Democrats have been pruning still more, despite drastic plans to revamp and modernise Germany's armed forces.

Mr Scharping's colleagues do not begrudge him his new-found happiness nor the fact that both he and his inamorata are still awkwardly extricating themselves from marriages. After all, Germany's chancellor and Joschka Fischer, the foreign minister and deputy chancellor, have each been married four times. But Mr Scharping's colleagues have been baffled and appalled by the ineptitude of their former party leader, who was the Social Democrats' candidate for chancellor in the general election of 1994, when he was thrashed by the Christian Democrats' Helmut Kohl. The defence minister of Western Europe's biggest

country, which has striven to play an even bigger part in NATO, albeit with a smaller contingent in Macedonia than its French and British allies had wished, has become a laughing-stock.

The opposition, of course, is in stitches. Mr Scharping, it now turns out, has been using the Luftwaffe to fly him to Frankfurt, where his countess works as a divorce lawyer. Resign, say the Christian Democrats. How can a man with such poor judgment, ask the generals, now manage to push through a raft of awkward military reforms after losing so much face?

It was not always so. Mr Scharping's star once shone brightly. The eldest of seven children of a furniture dealer in Rhineland-Palatinate who went bust, Mr Scharping, now 53, worked his way rapidly up the Social Democrats' ranks: he was their youngest state premier, in his home state, aged 43; the national party's youngest leader, at 45; and candidate for chancellor a year later. Serious, thorough, competent, he had always wanted to be top of the tree. But since his defeat by Mr Kohl, his decline has been fast: ousted as party leader in 1995, ousted as the party's parliamentary leader three years later, now just one of the party's five vice-chairmen. And in November, at a party congress, he may lose even that job. In politicians' national popularity ratings, he now comes nowhere.

To be fair, Mr Scharping's job at defence has been tricky. He was reluctant to take it after the Social Democrats won the 1998 general election, and did so only after Mr Schröder promised him more cash for the forces. He started well. Many of the top brass heaved a sigh of relief to see the back of his abrasive predecessor, Volker Rühe. In contrast, Mr Scharping showed a welcome willingness to listen to the generals and get a feel for the troops' lives on the ground. Most notably, in 1999, he was Germany's first post-war defence minister to send troops into a war zone, in Kosovo. He fought hard for that injection of extra cash. His plans to overhaul the armed forces were well received.

A year in which to shape up?

But then, a little over a year ago, something seemed to go wrong. His aides say he stopped listening. They complain now that they can no longer get near him. Though he still puts in long hours, sometimes 100 in a week, defence policy has drifted. He has meekly accepted further cuts in his budget. Hoped-for savings through the sale of military assets and private companies taking over various activities do not seem to have emerged. The planned cutting of Germany's troops from 340,000 to 280,000 and the chopping of civilian staff by a third may be delayed.

Mr Scharping feels done down. He says that the new woman in his life, far from distracting him from his job, has made him calmer and more efficient at it. He says he is the victim of envy and malice, and will not step down. So far, though plainly irritated by the episode, Mr Schröder says he will keep him on. After all, to lose another minister, on top of the seven who have had to bow out during the chancellor's three years in office, would not look good, with two state elections coming up this autumn, in Hamburg and Berlin, and with a general election barely a year away. But, if the Social Democrats hang on to power next year, do not bet on Mr Scharping having a nice job in their next government.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Northern Ireland

The Protestant retreat

Sep 6th 2001 | BELFAST
From The Economist print edition

Reuters

Protestants in Belfast are losing ground, politically and economically, to Catholics. Hence this week's vicious protests

Get article background

NORTHERN IRELAND has produced some ugly scenes in the past, but this week the province outdid itself. Britain's television news bulletins have been dominated by pictures of a North Belfast mob hurling abuse at sobbing five-year-old Catholic girls on their first day at school. The girls' offence was to take the quickest route to school, which goes through a Protestant estate in Ardoyne.

These days Northern Irish politics are played out mostly in conference rooms, by men in suits who seem a world away from the Ardoyne bullies. But the changes that have led to the explosion of hatred in North Belfast are fundamental to social, and therefore political, change in the province. Protestants are losing control, both of territory and of political institutions, and this has made them fearful and angry.

Ardoyne has seen some of Northern Ireland's nastiest episodes. It was here that sectarian clashes launched the house-burning and riots which triggered the past 30 years of conflict. A sixth of all deaths in “the troubles” of the past 30 years happened in North Belfast. Catholics in Ardoyne were perpetrators, as much as victims: in 1993 a Shankill Road fish-shop was bombed, killing nine Protestants including two girls aged seven and 13.

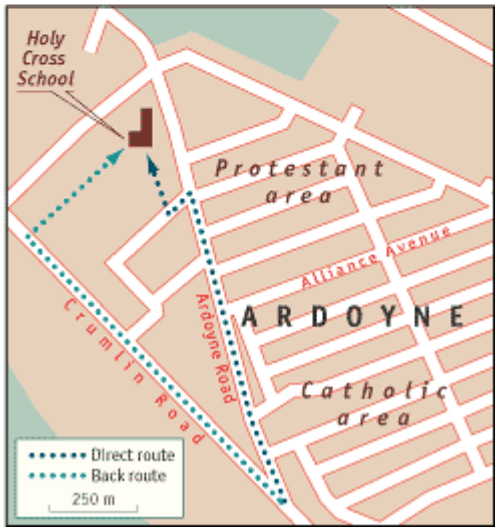
As IRA violence has tapered off through recent years, Protestants have faced a different kind of threat. North Belfast used to be a unionist stronghold with clusters of solid middle-class Protestant housing, a large working-class Protestant population and a markedly poorer Catholic minority. These days it looks very different. In the 1970s, better-off Protestants fled “the troubles”, moving to suburban estates, and leaving behind those who could not afford to get out—the old and the poor. Newly-prosperous Catholics started to move into the streets that the Protestant middle classes vacated.

The big old redbrick villas of the Cavehill and Antrim Roads now house the families of Catholic lawyers and doctors. The parents who this week took the longer route to avoid the missiles and abuse walked along the upper Crumlin Road past Protestant houses on the right, Catholic on the left. Both have decent gardens, fairly new cars, a step up from Ardoyne. Few of the Catholic residents have been there for more than ten years.

In the Ardoyne itself, the worst Catholic districts have been substantially rebuilt. They still have cheap shops and graffiti-covered walls, but the population is young and growing. Many of the heavies in baseball caps and jerkins besieging the girls of the Holy Cross see themselves besieged, a new minority. “There's 7,000 in that community,” said one of the protestors, pointing towards Catholic Ardoyne, “and there's only 1,000 in this.”

It is familiar a pattern in Belfast. Catholics move in, Protestants move out, while loyalist paramilitaries attack individuals, businesses and sports facilities. In the North Belfast suburb of Glengormley, once largely Protestant, now increasingly Catholic, loyalists last month by mistake shot and killed an 18-year-old Protestant as he chatted to a Catholic friend outside a Gaelic Athletic Association club.

Holy Cross has been in the same place for 30 years, but changes around it have given it a new significance. Some mothers of today's small pupils at the Holy Cross say that as children they faced taunts walking the same road, though never on the present scale. As the number of Catholics in the area has increased, and the number of Protestants has decreased, the Protestants have become angrier.



The school first became a target in June, after Catholics opposed an Orange march in North Belfast and just before the annual row at Drumcree, near Portadown. Marchers at Drumcree have had to accept that they will not be allowed through a Catholic district until they gain residents' approval. The muttered justification for the first Ardoyne picket line was “we'll stop them getting to their school if they stop our marches.”

When the cameras turned up, beaming pictures of tearful Holy Cross children across the airwaves, and condemnation poured in, the protesters hastily produced a list of justificatory grievances, headed by claims that the Protestant houses nearest Catholic Ardoyne were being attacked nightly. This defence gained credibility when, on September 5th, a Catholic woman was charged with murdering a Protestant youth who was knocked off his bike by a car.

While Sinn Fein, the IRA's political wing, is quietly smug about the inevitable impact of scenes of crying children on public opinion, unionist leaders are in despair. Billy Hutchinson, a former paramilitary with two murders and a prison spell behind him, who is one of the few loyalists to back the peace process from the start, joined the protestors in June and tried to speak for them. But after a blast bomb went off along the route on September 5th, injuring a policeman, he told a reporter, “I'm ashamed to say I'm a loyalist,” and said he would reconsider his involvement in the protest.

Ardoyne is a microcosm of Northern Ireland. Protestants are venting their frustration as they lose the upper hand, while Catholics are becoming more assertive as they gain ground. And these sociological shifts have a political parallel. Over the past two decades nationalist political leaders have steadily outflanked unionists, most obviously by enlisting the help of the British and Irish governments for a peace process which unionists mistrusted from the outset.

The children who this week heard people shouting “scum” and “Fenian bastards” as they tried to go to school may grow up marked by the experience. But at least, these days, they have a variety of successful role models. The current president of the Irish Republic, former law professor Mary McAleese, has written about her time as a school-leaver in Ardoyne in August 1969, when she watched police stand by as loyalist mobs attacked Catholic homes. The experience, she said, forced her to choose between a career as a lawyer and joining the IRA. She chose the law, and became a figurehead for upwardly mobile Catholics girls like those who are sobbing their way to school this week.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Refugees

Not my problem

Sep 6th 2001
From The Economist print edition

Rows over refugees in Europe are leading to moves to tighten up and harmonise rules. But rules are not likely to make much difference to desperate people

AP

Never mind the rules

THE sources of the problem are a long way from Europe—but that's globalisation for you. Among its many consequences are growing arguments between European countries, especially Britain and France, about how to deal with refugees.

Afghan and Iraqi refugees housed in a Red Cross camp near the Channel tunnel have been making nightly forays to try to jump on trains or walk through the tunnel to get to Britain (see article). The British government says that the French authorities are not doing enough to stop them. The French maintain Britain should change its regulations.

Over the past decade, the end of the Cold War and the growth of regional conflicts have increased the incentive to migrate, while better transportation and the emergence of illegal smuggling rings have increased the opportunity. At the same time, European countries have been trying to control the flow by reducing social benefits, detaining asylum seekers and applying a narrower legal interpretation of who qualifies as a refugee. In practice, this has translated into passing the buck to the neighbours.

Switzerland and Austria have accused Italy of turning a blind eye to would-be refugees heading north. Countries perceived to offer better conditions to asylum seekers, such as Germany, Switzerland and the Netherlands, have been moving to reduce differences. A few years ago, Switzerland's minister of justice and police declared that the country should take steps to make itself less attractive than Germany to asylum seekers. Britain is considered more refugee-friendly than France (by both the French and the refugees), so there are pressures on British politicians to tighten up.

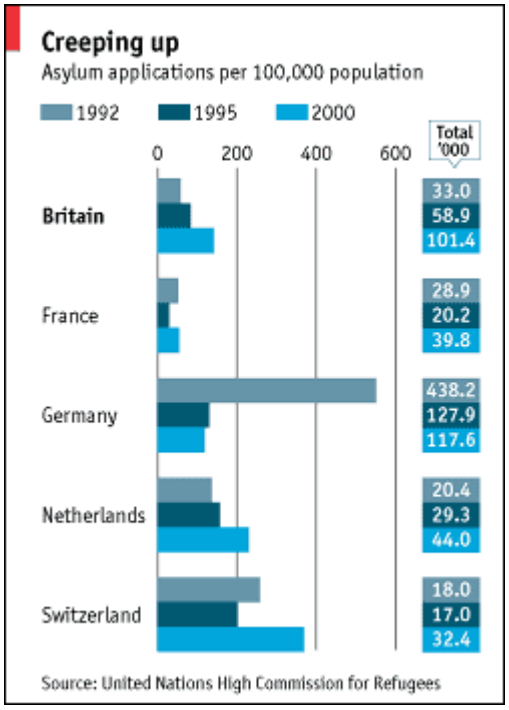
These spats have prompted efforts to develop common rules and regulations within the EU. The Dublin Convention, signed by EU members in 1990, was the first attempt at harmonisation. The idea was to discourage asylum seekers from shopping around for the most favourable refuge by having them apply in the first EU country they entered. In practice, however, it is difficult to prove that an asylum seeker showing up on Britain's doorstep first entered Europe through France. The Schengen Agreement—authorising the free movement of people across borders—further blurs the trail. In addition, since different European countries interpret the 1951 Geneva Convention differently, shipping asylum seekers back to another EU country may end up with them getting slung out altogether.

More recently, Brussels has produced a draft directive on asylum seekers and is trying to come up with a common definition for refugees. This exercise is fraught with tensions. Countries with restrictive positions are unwilling to loosen up, while the more liberal do not want to compromise their humanitarian principles by tightening their rules.

What is more, a refugee in one country may not be a refugee in another. In Britain, Afghans fleeing persecution from the Taliban have for years been recognised as refugees. In Germany, on the other hand, asylum seekers who want to be recognised as refugees have to prove persecution by a government and until recently Germany did not recognise the Taliban as a government. This may help explain why Britain allows over 50% of asylum seekers to stay, while the proportion falls to 40% in Germany and less than 20% in France.

Regulations, however, may not be the main consideration for refugees selecting a destination. Language, family ties, and work opportunities are powerful magnets. In Britain, asylum seekers are granted a paltry £35 a week, most of it in the form of vouchers (which is hardly better than in neighbouring countries). Having relatives or friends in the country makes it easier to survive, as do work opportunities. And people's ideas about countries tend to change far more slowly than laws do. So tightening the rules is unlikely to have a swift impact on numbers trying to get in, if it has one at all. It is more likely to increase illegal immigration than to convince asylum seekers to stay at home.

Britain's popularity with refugees should not be exaggerated, either. Partly by coincidence (more and more Afghans are on the move, and Afghans tend to want to come to Britain) applications to Britain have risen sharply recently. But relative to their population, countries such as Switzerland and the Netherlands (see chart), as well as the Scandinavians, have been a lot more hospitable. And the picture in Europe pales in comparison to other places. While a few thousand Afghans are trying to walk to Britain, over 3m of their compatriots are sitting in Pakistan and Iran.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The refugees

They want in

Sep 6th 2001 | SANGATTE
From The Economist print edition

But they can't quite say why

Reuters

Waiting for a break

THEY start queuing for meals two hours early. In the refugee camp at Sangatte, near Calais, there is nothing else to do. There are large tents for the young men who make up the majority of the camp's inmates, as well as cabins which house refugee families, but there are few distractions. Sangatte is not a processing centre: people come and go as they please. It is clean and the residents seem healthy. But when it grows cold at night, the men head out towards the entrance of the Channel Tunnel, half a mile away, and try to break in. The refugees have just one goal: Britain. Why?

“I don't know why. Because they have better law for refugees than any country,” says Saddiq Ullah, who was a television journalist before fleeing from Afghanistan. “The freedom in England is the main thing for us.” What if the laws changed? “The culture of the people cannot be changed,” he says.

Like many others, Mr Ullah paid several thousand dollars to be smuggled to France in a sealed truck. Abdullah Bahlol, an accountant in Afghanistan, was also transported by smugglers, who he claims at one stage kept him and his fellow travellers in the basement of a house for a month. “We are not coming for food,” he says. “I was rich in my country. But it is my misfortune to be living here. Every night I go to the station, and many problems happen.” He says there is no future for him in France: he thinks that England, where two of his brothers live, will be more welcoming.

After the long wait, dinner at Sangatte—rice, bread, vegetables and fruit salad—must be finished quickly. Nobody knows exactly how many mouths there are to feed. Estimates vary from upwards of 1,000, but nobody is keeping track. Although journalists are forbidden from entering the camp, *The Economist* had no difficulty in spending the night at Sangatte. A hospitable Afghan gave your correspondent his bed.

Some immigrants want to go to Britain because they can speak English, but even those who cannot still believe they will find work there more easily than anywhere else. Aliyev Ali, a former policeman, claims he will be imprisoned if he returns to his native Azerbaijan. He speaks fluent German, but no English. “I was in Germany but they didn't give me a place to live,” he says. “In France they don't give us a good place or salary. Here there is no work.” He wants to be able to send money home to his young family.

As night falls, the men put on their second sets of clothes and leave the camp to break into the tunnel. “I am going to London!” grins Qudus Amini, an Afghan soldier, but he thinks it unlikely. “No chance!” he smiles. He shows off bullet wounds he says he has received at the hands of the French police. Why does he risk his life each night? “We hear England accepts Afghans,” he says. “We think this is very dangerous. But what do we do here?”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Employment

The redundant male

Sep 6th 2001
From The Economist print edition

More and more men no longer count in the world of work

BRITAIN'S labour market has worked far more effectively in the past few years than anyone could have dared hope at the start of the 1990s. The number of people claiming unemployment benefit has fallen below 1m while employment has grown by leaps and bounds. The steady tightening in the labour market has not generated inflation because pay pressures have remained muted.

But a blight mars this happy state of affairs. An increasing number of working-age men have become disengaged from the labour market. Since they are no longer looking for work, they are not classified as unemployed and therefore do not form part of the labour force. Instead they drop out of the headline numbers, becoming economically “inactive”, in the curious argot of statisticians. Historically, women, typically housewives, have predominated among the ranks of the inactive who are of working age. Now, more and more women are joining the labour force—becoming economically active—while more and more men are leaving it—becoming economically inactive.

Since the beginning of 1993 when the jobless count last reached a peak, male unemployment on the ILO measure—those without a job who are looking for work—has fallen by 1.15m. Over the same period, however, the number of men of working age who are economically inactive has risen by 500,000 to reach 3m. This contrasts with a fall of 200,000 in the number of inactive working-aged women, to 4.7m.

A considerably higher proportion of the population of working age is employed in Britain than is the case in the European Union. However, the increase in male inactivity means that recent improvements in Britain's labour market do not outshine the performance in other big European economies as much as a straight comparison of unemployment figures would suggest. Between 1996 and 2000, for example, Germany's unemployment rate eased down from 8.9% to 8.1% of the labour force, whereas Britain's dropped from 8.2% to 5.6%. However, a bigger proportion of Germans moved out of economic inactivity into the labour force than in Britain. As a result, the employment rate rose by 1.9 percentage points, not far short of the increase of 2.5 percentage points in Britain.

Most men of working age who are economically inactive say that this is because they are sick or disabled. However, this cannot explain the increase in the number of inactive men at a time when declining mortality rates, especially at older ages, indicate that men's health is generally improving. The high rate of inactivity among older men offers one clue. Whereas 16% of men of working age are inactive, 27% of men aged 50-64 are. Some employers are reluctant to hire or to retain older workers, partly because of ageist attitudes.

But such outmoded views are a subsidiary reason for the rise in male inactivity. The more fundamental cause is too many workers with too few skills. This is truer of older people because they had less chance to get themselves educated than younger people do. Surveys of employers show that one of their principal concerns about employing older workers is outdated skills. Inactivity is heavily concentrated among the unskilled. Among men with no qualifications, the inactivity rate has shot up from 4% in 1979 to 17% in 1990 and an extraordinary 30% in 2000. In contrast, the inactivity rate of those with degrees or diplomas is now 6%.

The rise in male inactivity is rooted in a “huge decline in the relative demand for unskilled workers”, said Stephen Nickell, a member of the Bank of England's monetary policy committee, addressing the British Association for the Advancement of Science on September 4th. This in turn has created regional and local black spots, since any area with a high proportion of low-skilled workers will tend to have high rates of inactivity, unemployment and disability, and low average earnings. Mr Nickell said that the problem is particularly severe in Britain compared with other rich European countries because Britain has more very low-skilled workers.

The rise in male inactivity suggests that Labour set the wrong priorities in its first-term programme to improve employment prospects. The government energetically tried to get more people into work through the New Deal for young people and the Working Families' Tax Credit, which boosts the employment income of poorer parents. However, according to Mr Nickell, such policies are unlikely to help in “significantly reducing the high levels of worklessness among unskilled men, particularly in the older age groups”.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Housing

Your home is my home

Sep 6th 2001
From The Economist print edition

Banning second-home ownership is easier said than done

IF SECOND-HOME owners feel a touch unloved under Labour, they have good reason to. Two years ago, the environment minister, Michael Meacher, himself the owner of two houses and half a dozen flats, told a Labour Party Conference fringe meeting that the “privileged” should be banned from buying second homes because they were “robbing” poorer rural families of accommodation.

To be labelled a social parasite is bad enough, but a quarter of a million second-home owners now face a more punitive sanction, a doubling of their council tax. One of the key proposals of the government's rural white paper is that councils should be given the discretion to charge the full amount of council tax on homes that are not permanently occupied. At present second-home owners qualify for a 50% discount.

A new front in this long-running rural war has now been opened up by one of Britain's most beautiful national parks. The Exmoor National Park Authority is proposing to ban the purchase of second homes in order to protect low-paid rural workers from a surge in house prices fuelled by outsiders buying weekend homes.

In the past three years, the average price for a house in the national park has risen by 31% to £187,603, more than 50% higher than the regional average. Few locals, whose earnings are about 75% of the national average wage, can afford these sorts of prices. The result is population drift, closed schools, shops and services.

But implementing a ban on second homes is fraught with difficulty. The park authority is proposing that anyone buying an existing property will have to get planning permission if they want to use it for less than six months a year. That permission would be refused if more than 10% of the homes in any particular parish were holiday homes. Jack Ellerby, principal planning officer at the national park, says his authority will take three issues into consideration before deciding whether to grant planning permission: whether the house in question is suitable for a local purchaser; what proportion of houses in the area are second homes; what state the village and its services are in.

It seems unlikely that such a policy would survive legal challenge. The courts tend to uphold property rights. The authority's claim that second-home ownership amounts to a change of use is also unlikely to survive an appeal to the secretary of state. The enforcement problems would also be formidable. The enquiries the authority would have to make to establish the owner's status could easily infringe the right to privacy under Article 8 of the Human Rights Act. And it would be hard to design rules that could not be bent.

Even if such a policy were legal and enforceable, would it be desirable? Second-home owners may compete with local workers for houses in areas of outstanding natural beauty but they do also bring much needed cash and jobs to poor communities. Reserving new low-cost housing for local workers makes sense. But banning second homes is going to make the rich cross without helping the poor.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Prostitution

Red lights ahead

Sep 6th 2001 | EDINBURGH
From The Economist print edition

Tightening up on the sex trade will fail. Edinburgh shows a better way

CURRENT laws against prostitution are loaded against the woman selling sex and in favour of the man buying it. From next month, the balance will shift. The police will get new powers to arrest and charge men who are kerb crawling or walking about looking for prostitutes. The Home Office hopes that the increased likelihood of prosecution and public humiliation will reduce the demand for, and therefore the supply of, street prostitution.

That certainly seems to have happened in Sweden. A law introduced in January 1999 made buying sex a criminal offence punishable by up to six months in jail. Although in the first year, only 18 men were charged with buying sex, the incidence of street prostitution dropped sharply.

But such moves do not cut the demand for prostitution. They merely shift it indoors; and, behind closed doors, a different set of problems occurs.

Prostitutes driven off the streets will work in flats. Out of sight, they are more likely to get beaten up. Marina Barnard, who works at Glasgow University's drug misuse research centre and has studied prostitution in Leeds, Edinburgh and Glasgow, says: “In one flat in Leeds, a woman's only way of getting help was to bang on the window to get the attention of bouncers on the door of the nightclub opposite.”

Try something different

There is another way of dealing with the problem, which Edinburgh has tried. Instead of trying to stamp out prostitution, the city's council, police and health authorities decided just over a decade ago to co-operate in what was, in effect, permitting prostitution in saunas and a certain amount of street soliciting. The results were surprising: prostitution did not grow, and the health, social and crime problems associated with it shrank.

The change came about because, in the 1980s, the police were unable to solve the murder of a prostitute in Leith, the docks area where prostitution has been going on for centuries. Prostitutes' concerns that talking to the police might land them in trouble outweighed the fear that they might be next on the killer's list. At the same time, AIDS was spreading fast. Drug addicts who share needles are one source of infection and, since many prostitutes also take drugs, they are another.

Police and doctors realised that cracking down on prostitution was making the problem worse. The police, for example, routinely presented the courts with condoms found in a handbag as evidence that the woman was a prostitute. So prostitutes stopped carrying condoms, making the spread of disease more likely. Convictions usually resulted in fines, so the women were back on the streets in no time, working harder than ever.

The police and the city council eventually decided to license saunas as places of public entertainment. That allowed police, fire, building and environmental inspectors in. To get their licences, owners had to keep their places clear of illegal activity, such as drugs. The council's licensing board now gets remarkably few complaints about saunas.

But because some men will not use such places, and sauna-owners generally will not employ older, unattractive, or drug-using women, the street sex trade continued. So Edinburgh allowed soliciting in a couple of streets in Leith. Within certain night-time hours, provided the number of prostitutes was

limited, and there were no drugs, drinking, or pimping, the police would not arrest anyone. They also appointed a policewoman to liaise with the prostitutes.

It seems to have worked. “Our intelligence is much better. The women will even tell us if someone tries to sell them drugs,” says a senior police officer. A recent study by Ms Barnard and others at Glasgow University's drug misuse research centre found that Edinburgh's prostitutes suffer much less violence from clients than do prostitutes in less liberal Glasgow.

Tolerant policing also allows better regulation of health. Ruth Morgan-Thomas, who runs Scotpep, a publicly-funded prostitute support centre in Leith employing health workers who go out on the streets, reckons that her outfit is in regular touch with 95% of the city's street prostitutes. In other less tolerant cities, the contact rate by similar organisations will be less than 50%, she says.

But Edinburgh's approach has run into a problem. Over the years, the streets where prostitution has been tolerated have become surrounded by smart flats whose owners have objected to the sex trade outside their doors. So the police tried moving the tolerance zone to a street occupied by businesses which shut down at night. But people living nearby objected so vociferously that the police have decided to crack down there, too.

If the police cannot find another suitable street—and it seems unlikely that they will—they say they will have to go back to enforcing the law against soliciting. And so, presumably, prostitutes will suffer more health problems and more violence, and more people will be arrested for doing something that does nobody else any harm.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

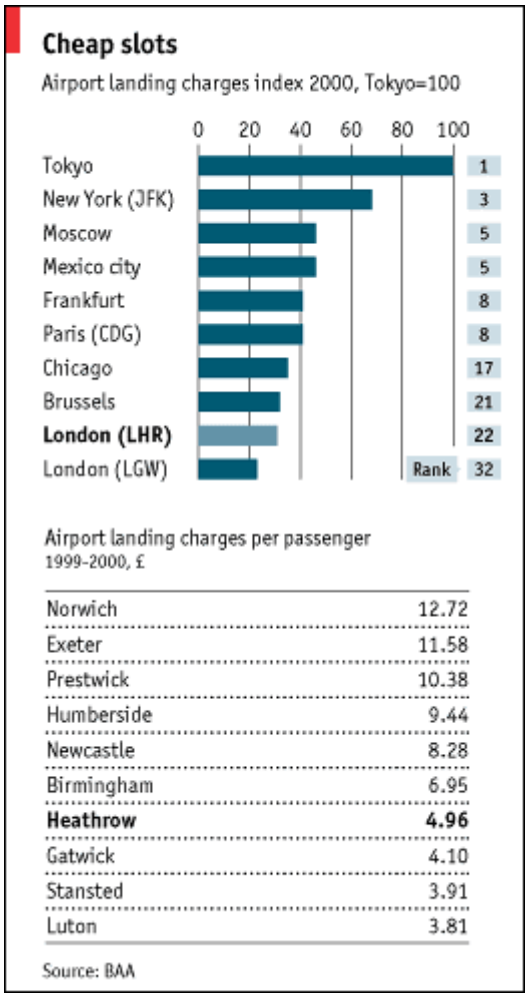
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Airports

Windfall at Heathrow

Sep 6th 2001
From The Economist print edition



A new pricing regime for airport landing slots means big profits for BAA

HEATHROW airport has the dubious honour of being the most congested airport in the world. It also charges airlines less for landing than most other international airports. This nonsense is a result of the system of regulation introduced by the 1986 Airports Act.

The so-called “single till” regime regulates the total earnings of the airports operator, BAA, from London's airports. So the more BAA earns from its commercial operations—retailing, restaurants and car parking—the more it has to reduce airport charges. The regime has not yet reached the point where airlines are actually paid to land, but, in theory, it could.

At present, London's three airports, Heathrow, Gatwick and Stansted, are allowed to make 7.5% on their asset base. To meet this cap the regulator has fixed BAA's price increases at 3% below retail price inflation for the past five years. In practice,

that has meant cutting prices. At the time of the last regulatory review, the Monopolies and Mergers Commission acknowledged that Heathrow's single-till pricing regime was flawed. But it pointed out defensively that abandoning it would allow BAA to make “very large profits on its commercial activities”.

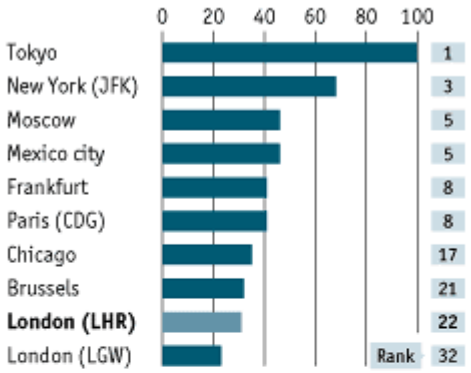
Since then, the tide of opinion has moved against single-till price regulation. Australia's Competition Commission is currently reviewing proposals to move to a “dual till” regime—by which the regulator focuses only on charges to airlines—at Sydney. Seven of the largest ten airports in America are now under such a regime. Some of the airlines that use Heathrow, though not BA, appear resigned to having to pay more to operate there. The International Civil Aviation Organisation, which represents the airlines, is currently looking at different pricing regimes.

Whether the airlines like it or not, change is coming. On September 28th, the Civil Aviation Authority, the airports' regulator, is to recommend a new method of price regulation, which will end the cross-subsidy of airport charges. The new “dual till” regime will allow BAA to raise its landing charges. As Heathrow's main competitors, Amsterdam, Paris and Frankfurt, charge at least a third more, the rise will possibly be of that order. Whether the airlines will take the hit or whether they will pass the increases on to the passenger is not clear. Either way, the sums involved in raising charges by a third are not huge—perhaps £2 or £3 per passenger.

For BAA, though, that is big money. Robin Horne, a transport analyst at HSBC Investment Bank, says that if the single-till pricing regime is abolished, BAA's earnings could increase by 40% by 2003-04 to £293m.

Cheap slots

Airport landing charges index 2000, Tokyo=100



Airport landing charges per passenger
1999-2000, £

Norwich	12.72
Exeter	11.58
Prestwick	10.38
Humberside	9.44
Newcastle	8.28
Birmingham	6.95
Heathrow	**4.96**
Gatwick	4.10
Stansted	3.91
Luton	3.81

Source: BAA

The new regime will be an improvement on the old one, but it does not go far enough. Many smaller Scottish and regional airports have for years freely negotiated their charges with the airlines to no ill effect. Allowing BAA to negotiate market prices would enable it to concentrate on its key task of providing better airport services. Higher landing charges at Heathrow would help deflect demand to other London and regional airports. It would also provide the cash for badly-needed improvements to the transport links between airports and city centres. The CAA should take one step further, and deregulate altogether.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bagehot

Don't mention the S word

Sep 6th 2001
From The Economist print edition

Tony Blair may have to reform the public services by stealth

SINCE June, Tony Blair has basked in the afterglow of re-election, having at last won the full second term that eluded previous Labour governments in Britain. The glow has been made all the brighter by the dimness of the Conservatives. Their over-long leadership election has put their divisions on embarrassing public display. On September 12th, however, the Tories will name a leader, and attention will at last swivel back to the government, where it belongs. Now that he has his second term, what does Mr Blair mean to do with it?

On present showing, the second term will begin with a three-round fight. Next week—round one—Mr Blair goes to Brighton to tell the Trade Union Congress just what he meant during the election when he talked with so much enthusiasm and so little precision about using the private sector to revive Britain's sclerotic public services. Round two comes at the beginning of October, when delegates at Labour's own conference will beg him to renounce his apostasy and return to the statist faith. Then comes the return of Parliament. Will Labour backbenchers—numerous, confident and more disdainful than ever of the Conservative opposition—still let Mr Blair march across all the red lines set down in Labour's old ideology? Only, perhaps, if he advances by stealth. There may be a lesson in his handling this week of the education white paper, “Achieving Success”.

Education, remember, is Mr Blair's declared priority in government. It is Labour's twitchiest ideological lightning-conductor. It is also a sector where Mr Blair owes voters a debt or two. For all the speeches he lavished on education in his first term, he lavished little extra cash. Indeed, unhelpful research this week from Howard Glennerster, a professor at the London School of Economics, says that in 1998 and 1999 Labour squeezed spending on education to 4.5% of GDP, less than it got under Margaret Thatcher (4.7%) and its lowest share since the 1960s. A big spending increase is on the way now, but at a rate which is almost certainly unsustainable beyond a few years. So if Mr Blair is to transform education and the other public services, he will by his own admission have to combine the extra money with radical reform. “Without the change,” the prime minister said in February, “money is simply wasted on outdated practices.”

Brave words. And radical change is what this white paper was expected to contain. Mr Blair's spokesman promised that it would reform England's secondary schools, putting an end to the “bog-standard” comprehensives that had let down generations of students. One particularly encouraging sign was the horror of the teachers' unions. They braced to resist what they expected to be a hideous prospectus of Blairite offences against orthodoxy. Selection would return to state schools, disguised now as school “specialisation”; whole schools would go under the auctioneer's hammer as a star-struck prime minister invited firms to run them; the end of state education was nigh.

Or was it?

Odd, then, that the white paper, once out, seems so much less threatening, either to the unions or to Labour dogma.

Yes, the government hopes that the promise of extra money and more freedom to manage their own affairs will by 2005 have persuaded four out of ten secondary schools to specialise—in maths and science, say, or in art. But Estelle Morris, the education secretary, insists that this will confer no power that schools do not already have to select a fraction of their students by aptitude. The point, she says, is not to create two tiers of schools but to inject into as many schools as possible some of the quality-raising buzz that specialising seems to give them. And, yes, there will be an enhanced role for the private

sector, but the role will be carefully circumscribed. For example, private firms that find their way on to an approved list may be asked to rescue state schools that are failing, and sometimes even to introduce new schools. But none of this should change the fact that education is a “public service delivered by public servants”. A newspaper article on the white paper, published on the day of its launch under Mr Blair's name, said nothing at all about the role of private firms.

This is calculation, not oversight. At the TUC conference, and then at Labour's, the big unions intend to hold rallies under the slogan “Keep Public Services Public”. Polling firms have meanwhile published one survey after another showing that voters agree. One such, by MORI for the *Times*, found that more than six out of ten of voters would like schools and hospitals to be provided entirely or mostly by the public sector, with fewer than three out of ten preferring a mixture of public and private providers. In the face of all this, you can see why it was prudent of Mr Blair to take some evasive action. The question is whether evasive action is the same as headlong retreat.

It need not be. According to the National Union of Teachers, the tone of the white paper has “significantly softened” since July. This is bad: when the NUT stops complaining, school reformers should start to worry. The consolation is that the union may well have declared victory too soon.

It is now plain that Mr Blair and Mrs Morris dare not argue openly for selection, which remains anathema to much of the party. That whole argument, they say in the familiar manner of New Labour, is just another “sterile” debate of yesteryear. This lack of plain talk is a pity. Public policy is likelier to succeed when its framers set out their objectives honestly. All the same, the present spin will count for less than the new pattern of school incentives that the white paper foreshadows. Much therefore depends on round three, as the education bill wends through Parliament. But in the long run, the logic of specialisation, and the promise to relax central controls on good schools, points to selection by aptitude. That is a good thing, even if Mr Blair still cannot bring himself to say so.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Hewlett-Packard and Compaq

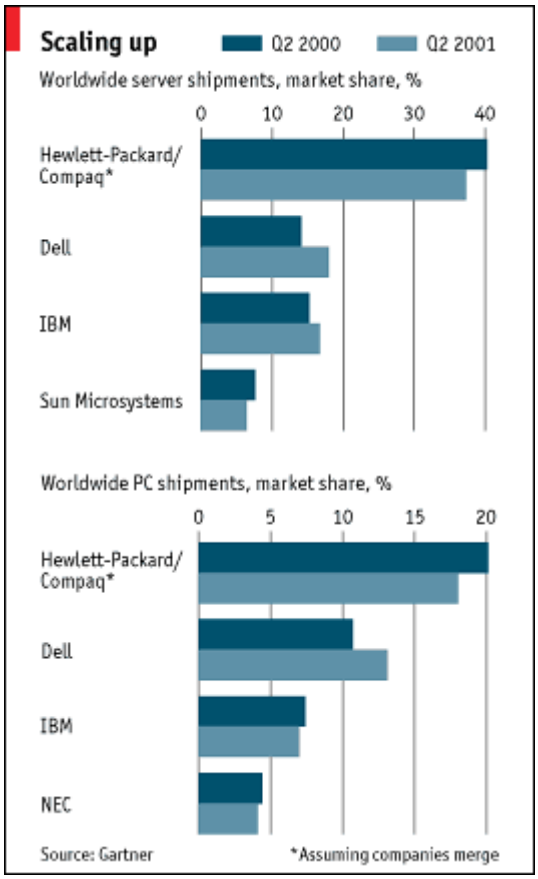
Sheltering from the storm

Sep 6th 2001 | SAN FRANCISCO
From The Economist print edition

Hard times lie ahead if Hewlett-Packard and Compaq merge

LESS than four years ago, in January 1998, Compaq, a large maker of personal computers, bought Digital Equipment (DEC), one of its competitors. The computer industry has a short memory, and few now recall that the $9.6 billion takeover, then the biggest in the history of the computer industry, proved to be a total disaster, distracting management at a time when the merged firm's core businesses badly needed more attention.

The risks are high that Hewlett-Packard's record-setting acquisition of Compaq will be a replay. When the two chief executives, Carly Fiorina and Michael Capellas, announced the deal in New York on September 4th, they repeatedly insisted that they had put together a detailed “integration plan” even before calling in the investment bankers. But the challenges of merging these two companies, which have wildly different cultures as well as overlapping product portfolios, will be at least as great as those of the DEC takeover.



Unsurprisingly, HP's share price promptly fell, and was down by almost a quarter by the end of the day on September 5th, reducing the value of the all-share deal by almost $6 billion to less than $20 billion and wiping out the premium that Compaq's shareholders were supposed to get. The shares of the two firms' main rivals rose sharply. The takeover may yet be called off if HP's shares do not recover (although that could be expensive: the firms have agreed on a $675m break-up fee).

Yet HP and Compaq had no real alternative. Both have been buffeted by three powerful forces: the slump in information technology (which will last at least until the middle of next year); cut-throat competition; and technological shifts that are turning hardware, the mainstay of the two firms, into a commodity.

Other options were hardly attractive. HP could have shed its struggling personal-computer unit and even its high-end computer business, as some critics have suggested—turning one of Silicon Valley's proudest firms into a mere supplier of printers and ink cartridges, albeit a highly profitable one. The outlook for Compaq, which created the modern PC business in the early 1980s, was even darker, in the view of many. Sooner or later, Dell Computer, its hyper-efficient rival, might have put Compaq out of business.

Naturally the two firms protest that their merger is not merely defensive. By joining forces, they hope to offer customers “exactly what they want today”, as Ms Fiorina says (so what have they been offered until now?). She has in mind cutting-edge hardware, but also services and “solutions” that can help to make corporate

investment in information technology more productive. The model is IBM, which is still seen as a hardware firm, but makes most of its money by selling consulting, outsourcing and support. “For the first time in a very long time, IBM will have a competitor that is strong enough to take it head-on,” says Ms Fiorina optimistically.

The merged company will at least be in the same league as Big Blue in size, with total annual revenues of about $87.4 billion and operating profits of around $3.9 billion. It will do business in 160 countries and employ more than 145,000 people—at least initially, before planned lay-offs of 15,000 (which are to generate three-quarters of the $2.5 billion annual cost savings that the merger is supposed to produce).

Although HP and Compaq are about the same size, with $47 billion and $40.4 billion in revenues respectively, it is the former that is taking charge. Ms Fiorina will be chairman and chief executive of the new entity, while Mr Capellas will serve as president. The merged company will be called HP, and its headquarters will be in Silicon Valley's Palo Alto. Moreover, HP's shareholders will own 64% of the new firm, those of Compaq only 36%.

The lines of command need to be clear, because the “new HP”, as Ms Fiorina already calls the merged company, has difficult times ahead. First, she must convince shareholders that the deal makes sense. Then, regulators on both sides of the Atlantic must agree to let it through. Although they will certainly scrutinise the deal, the trustbusters ought not to derail it. The merged company will account for more than three-quarters of PC sales in American retail stores. But many consumers prefer to order their computers online, where there is more choice. At worst, the new firm may have to sell a small part of its business, such as a high-end server line—though nobody should ever take the European Commission for granted.

Ms Fiorina and Mr Capellas hope to start implementing their integration plan some time in the first half of next year. First, though, they must settle some crucial but painful details. For instance, where should they cut the 15,000 jobs? Which of their overlapping products should they drop—without upsetting customers in the high-end computer market who have built their businesses on these machines? The “new HP” will also face strategic challenges in all four of its new operating units:

• Access devices: this unit will include PCs, but also handheld computers and other devices, although the PC will still generate most revenues. Although the merged company will be the world's largest PC vendor, with 19% of the global market, leapfrogging Dell's 13%, HP can catch up with the leader only if it can emulate Dell's build-to-order manufacturing, which has reduced inventory to hours.

• IT infrastructure: the new firm would account for 37% of worldwide sales of server computers, the workhorses of corporate IT. Yet both companies have been on the defensive in this market. Compaq struggled to beat off Dell; and HP never regained the ground it lost to IBM and Sun in the market for high-end servers running the Unix operating system.

• IT services: here, the merger gives the company critical mass—something that both firms tried in vain to acquire on their own (HP failed to buy the consulting arm of PricewaterhouseCoopers last year). But even the combined unit will find it hard to compete with IBM's Global Services division and Electronic Data Systems (EDS). Much of what the “new HP” will be able to provide will be only basic maintenance and support. And it will not be a significant competitor in enterprise software.

• Imaging and printing: this unit has been HP's crown jewel, with a 39% global market share. It has long subsidised other businesses. But it has been hit by the global downturn and increasing competition from low-cost rivals such as Epson and Lexmark.

If the deal goes through, there will be one clear winner: Ms Fiorina. Her honeymoon with Wall Street had already ended abruptly. Last December she rashly promised growth of 15-17%, despite signs that the economy was already slowing. In recent months, there has been speculation that she might lose her job. The merger would give her another couple of years to prove that she can turn around a large company. If things turn sour, though, she will follow the track of Eckhard Pfeiffer, the architect of the Digital takeover, who was fired ignominiously as Compaq's chief executive 15 months later.

In recent months, there has been speculation that Ms Fiorina might lose her job

Ms Fiorina will certainly leave a mark on the computer industry. If she succeeds, the losers will be HP's competitors, who are now drooling at the prospective upheaval in the merging companies and among their customers. IBM's service division may grow more slowly; Dell could discover that an efficient supply

chain does not guarantee lasting success; and Sun might suddenly look very old. The new HP may sell lots of computers based on Intel's new Itanium chip, competing with Sun's expensive proprietary systems.

If, on the other hand, the takeover is a disaster, expect another “biggest deal in the history of the computer industry”. But it may not be another merger.Rather, HP will do the splits, separating into one company for consumer products and another serving business customers. And Ms Fiorina will be toast.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The mess at Marconi

Tell it straight

Sep 6th 2001
From The Economist print edition

The British telecoms-equipment company has revealed more huge losses and got rid of both its chairman and its chief executive—at last

"I WOULDN'T call this a severe crisis, I would call it a challenging set of circumstances." Those were the weasel words of Steve Hare, finance director of Marconi, on September 4th. Read them beside the news that Marconi's shares have fallen from £12.50 ($18.13) a year ago to around 38p this week. Note that the company said in July that it was breaking even in the first half of its trading year, but this week admitted to a £227m loss in the first quarter alone. Recall that the company said in July that its operating profit for the full year would fall by half, but now implies that the outcome will be much worse. And consider that Mr Hare is the same finance director who admitted that the stupidly optimistic July forecast had been based only on sales forecasts and that worse news about profitability had become available within two weeks. This bad news was not to be released for another seven weeks.

This week Marconi at last kicked out its chairman, Sir Roger Hurn, and its chief executive, George Simpson, whose credibility had sunk with the company's share price. In July it was Lord Simpson's deputy and designated successor, John Mayo, whose head had rolled. Marconi shares have not been so talked about since the Marconi scandal on the eve of the first world war, when some ministers were rumoured to have bought shares before the company won a big government contract. At least then the shares were rising. Marconi's fall in the past year is dismally reminiscent of the events of the early 1990s, when popular shares of the 1980s, such as Polly Peck, collapsed in ignominy.

How different it all looked a year ago. Solid, sensible and popular Lord Simpson was brushing the cobwebs from the old General Electric Company (GEC), where he had succeeded the ultra-cautious Arnold Weinstock. Lord Weinstock clung to office too long and missed many opportunities to grow; but he kept a pile of cash in the bank against difficult times. His successor sold GEC's defence business and then went on a $7 billion spree, mostly buying American telecoms-equipment firms.

The first worries about this sector surfaced last October. Soon after Marconi was listed on the Nasdaq exchange, its share value fell sharply. Investors had been selling high-tech stocks over the previous six months. Marconi was moving heavily into broadband communications equipment and optical switches at the cutting edge of technology. Outsiders feared that telecoms operators would cut investment on such things, because of the huge sums they had spent to win third-generation wireless licences. Marconi (as GEC was renamed in 2000) brushed them aside. It was wrong and they were right.

In the first quarter of Marconi's financial year, beginning in April, sales in its core business fell by 25%. The company has been unable to cut costs fast enough to keep pace. It said this week that it could not give any indication of full-year sales and operating profits. Many analysts now think the company will report a loss. It is also bleeding cash heavily (estimated at £657m in the first half of this financial year) and has debts of £4.4 billion.

Marconi's top executives had always insisted that it was going to be spared the worst of the telecoms meltdown, because its products were at the high end of the market, and because it was not so heavily dependent as its rivals on the American market. But the explosion of broadband demand that Marconi was banking on has failed to happen, weakening demand for its upmarket optical switches for the foreseeable future. Any company would find it hard to cope with the combination of cash-strapped customers and a new market that fails to bloom.

By far the most worrying thing about Marconi over the past nine months is how slow the company's management, led by Lord Simpson, was in grasping what was happening, and in explaining the company's predicament to the financial markets. That has particularly infuriated analysts. They resent

almost as much the fact that the sacked chief executive, who seems to have lost control of the business over the past year, will walk away with a handsome pay-off of around £1m.

There was always a suspicion that the transformation of GEC into Marconi was really just fancy financial engineering to create a group that might then be taken over by world-leading competitors such as Lucent or Nortel. How shareholders must wish that had happened. But since those industry leaders also hit the same storm that has broken over Marconi, they have been in no position to buy. Even so, as the new management team of Derek Bonham, a stalwart of the former Hanson conglomerate, and Mike Parton, a GEC insider, try to stop things getting worse at Marconi, predators may be circling. Last year it would have cost around £35 billion to buy Marconi. Today, it would take not much more than £1 billion—and one day, that broadband boom may actually happen.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

India's sluggish privatisation

Unproductive

Sep 6th 2001 | DELHI
From The Economist print edition

Why India's economy needs faster privatisation

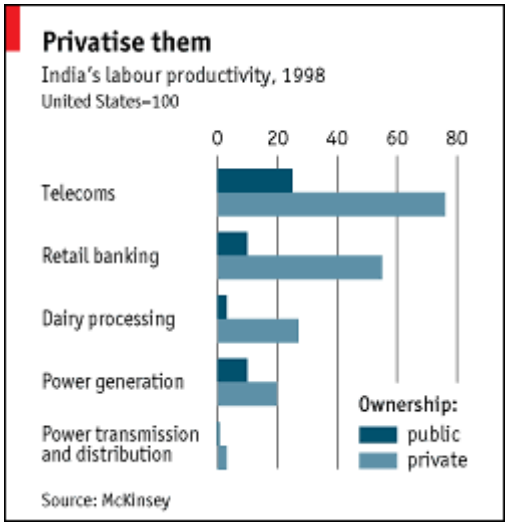
THE privatisation of India's hundreds of public-sector businesses looks ever more difficult, but also ever more essential. In spite of many government promises, management control of only three operations has moved from public to private sector. Yet on September 7th a report from McKinsey, an international consultancy, reiterated the importance of privatisation as part of a 13-point list of recommendations to raise the country's productivity.

The latest problem is Air India. A modest airline, with 26 ageing aircraft flying to 33 destinations outside India, its return to the private sector, nearly 50 years after India's government nationalised it, would hardly transform the economy. But it would transform the airline, which has been losing money for six years and does not have enough jets to fly all the routes to which it has rights. It would also be a sign of government resolve to withdraw from commercial enterprises, which it manages badly, and to concentrate on public services instead.

That plan was shaken on September 1st when Singapore Airlines, the foreign partner in the only consortium in the running to buy the 40% stake the government now wants to sell, said it would not bid. The privatisation is not quite dead, but the Tata group, Singapore's Indian partner, which founded Air India, is not sanguine. “We can't go it alone”, says Ishaat Hussain, Tata's finance director.

Singapore Airlines was blunt about its reasons for withdrawing. It was “surprised by the intensity of opposition” from politicians, unions and the media. Similar coalitions have frozen India's overall privatisation programme and held progress in broader economic reform to a glacial pace. Air India's domestic-market sister, Indian Airlines, has no prospective bidders. The government wants to reduce its stake in VSNL, which has a monopoly of international telephony until next year, but potential bidders fret about regulatory uncertainty. India's finance minister promised to raise 120 billion rupees ($2.5 billion) from privatisation in the current fiscal year (ending on March 31st) but has not sold a single company this year.

That is not good enough, says McKinsey. In a report on India's economy, the consultancy points out that 43% of India's capital stock is owned by the state, and that the productivity of these assets is well below the Indian average (see chart). So far, the government has picked 32 enterprises (many of them small) for privatisation, if possible, this fiscal year; McKinsey argues that central and state governments should sell 30 companies a year for the next three years, starting with the biggest and raising $10 billion-15 billion a year.



India's low productivity is the central preoccupation of McKinsey's analysis, which starts with the unexceptionable observation that India needs nearly to double its economic growth rate to 10% if it is to employ the masses due to enter the workforce over the next decade. In a dozen “modern” sectors, labour productivity is 15% of the American average, McKinsey found. It is as high as 44% of American levels in software, but as low as 1% in electricity distribution. McKinsey reckons that India can double its growth in labour productivity to 8% a year and increase capital productivity by 50%. That would push economic growth to double digits with less additional investment than most economists assume to be necessary.

Government ownership of business apart, two other obstacles block the path. One is what McKinsey calls “product market barriers”. These include such well-known obstacles as restrictions on the size of companies allowed to make some 800 different products, as well as some less familiar ones such as a ban on foreign investment in retailing, which keeps consumer prices artificially high. The other consists of distortions of the land market, such as badly defined titles and rent controls, which McKinsey reckons reduce growth by 1.3 percentage points a year. Compared with these, the McKinsey consultants argue, poor roads and inflexible labour laws—among the commonest complaints—exert only a minor drag.

India's government may just be in a mood for the sort of boldness McKinsey calls for. On September 1st the prime minister reorganised his cabinet, promoting the minister with responsibility for privatisation, Arun Shourie, to cabinet rank, and shifting the ministers for aviation and telecoms, who had resisted reform, into other jobs. Pradip Baijal, the senior bureaucrat in charge of privatisation, promises that half a dozen companies, including VSNL, will be sold to strategic investors within “two to three months”. He goes on, “If we are able to do that, the extent of criticism will reduce dramatically”. That is true, but the government is better at making promises than at keeping them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Trade publishing

Reshuffling the titles

Sep 6th 2001
From The Economist print edition

Why are so many companies selling their trade journals?

THEY are hardly titles to set the pulse racing: *Frozen Food Age*, *Convenience Store News*, *Paperboard Packaging Worldwide*. But the magazines that make up the trade publishing world, the unglamorous sister of consumer publishing, are in upheaval. Only last week, Vivendi Universal, a French media giant, got rid of its health and business publishing division to Cinven, a British investment house, for *euro*2 billion ($1.8 billion). Other trade publishers seek buyers too. What has gone wrong?

At first glance, it would seem that trade publishing is losing its allure. Vivendi is not the only group trying to shed its business titles. In August, Wolters Kluwer, a Dutch publisher, announced that it was putting up for sale Ten Hagen & Stam, a small trade-publishing division. Last year, United News and Media, a British media group, sold Miller Freeman, its trade-communications business. Bertelsmann, a German media giant, is said to want to offload BertelsmannSpringer, whose transport and construction titles are European market leaders.

Certainly, the economic downturn has battered advertising income for the business journals, as it has for the consumer titles, particularly in the technology and telecoms sectors. VNU, a Dutch publisher, recently said that year-on-year advertising volumes at one of its trade titles, *AdWeek*, had fallen by 60% in the first half of 2001.

Yet this rush to abandon a traditionally lucrative industry looks odd. Margins in trade publishing can reach around 20%, according to Simon Wallis, at WestLB Panmure, an investment bank, compared with about 15% for consumer titles. This is chiefly because the market is made up of lots of small, specialised niches, with semi-captive audiences. If you have the must-read title in, say, the non-ferrous metals industry, you can charge relatively high subscription and ad rates. At the same time, the expertise, brand name and client list that a market leader builds up makes it hard for any rival to elbow its way in.

In fact, what is happening is not a wholesale disaffection with the industry, but a reshuffling of assets within it. Three developments are taking place. First, publishers are specialising in the industries in which they are strongest. So United News and Media, for instance, which is strong in technology, has sold Miller Freeman, and with it lots of unrelated titles such as *Frozen Food Age* and the *Hollywood Reporter*, while it has bought CMP Media, an American business-communications company specialising in technology. Reed Elsevier, an Anglo-Dutch publisher, has been tightening its grip on four areas—science, legal, education and business—and recently spent $4.5 billion acquiring Harcourt General, an American publisher in those fields.

Second, trade publishers are trying to use their specialist brands to sell other services, such as conferences, trade fairs, training or market research. “Publishers need to migrate from the old single-revenue model to a multiple-revenue model, organised around their customers,” says Peter Kreisky of Mercer Management Consulting. While the idea is not new, the need to apply it is all the more pressing now that ad revenues are drying up. Advanstar Communications, an American business-information firm, has been a pioneer in organising itself around the groups it serves, such as pest-controllers or beauticians, and then selling not only a trade journal but, say, a pest-control reference guide or a seminar on hair-colouring.

Because many trade journals, particularly in America and Britain, are distributed free to consumers in return for loads of personal information, there is also scope for mining and selling that data. Mindful of this, VNU recently bought A.C. Nielsen, a market-research firm, having already acquired Nielsen Media Research, a television-ratings firm, back in 1999.

The third trend is the reorganisation of trade publishing from geographic to industrial lines. In the past, European publishers tended to own both consumer and business titles, but chiefly in their home market. Today, most groups are choosing to specialise in one area, but then to do it worldwide. As recently as 1992, for instance, VNU made three-quarters of its revenues in the Netherlands and Belgium. Now, in a bid to become a global business-communications group with expertise in the media, VNU has splashed out on Miller Freeman's American trade titles. In July, it sold its consumer magazines to SanomaWSOY, a Finnish media group, for *euro*1.25 billion, and last month it offloaded its education-information group too. Today, over half of VNU's revenues come from the United States, and the group has shed entirely its consumer interests, the original cornerstone of its business.

Vivendi's sale to Cinven follows similar logic. Its publishing interests used to centre on France, and to cover both business titles, such as *La France Agricole*, and consumer ones, such as *L'Express*, a current-affairs magazine. Now, having sold its trade titles, and paid $2.2 billion in June to buy Houghton Mifflin, an American educational publisher, Vivendi has become an international consumer media group.

The appeal of a reshuffle along these lines may explain Cinven's purchase of Vivendi's trade journals. This division contains a motley bunch of some 50 titles, mostly in French, ranging from medicine to construction, and 66 branded trade fairs. It would make strategic sense, say industry watchers, to sell some of those French titles to the global specialists. And Cinven is hardly shy of dealing in media stocks at a volatile time for the industry. In July it sold IPC, a British magazine publisher that it had acquired just three years previously, to AOL Time Warner, for £1.15 billion ($1.63 billion).

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Hollywood media scandals

Mags nix ethix trix

Sep 6th 2001 | LOS ANGELES
From The Economist print edition

Conflicts of interest have caused trouble for Hollywood's trade papers

kp

FILM gossip has become a staple of popular magazines and television programmes, but for Hollywood insiders, there are still only two publications that really matter when it comes to dishing the dirt on their business. *Variety* and the *Hollywood Reporter* both have daily and weekly editions, and circulations of only 34,000 and 32,000 respectively, but are read by everybody who matters in the industry. Lately both have found themselves in trouble for getting a little too close to their subject.

Problems first flared up at the *Hollywood Reporter*, in April, over a columnist who was alleged to be trading compliments in his pieces for favours from film companies, including the free use of a luxurious office. He was also accused of getting producers to list him as an actor in movies in which he had not appeared. These credits allowed him to maintain his membership of the Screen Actors Guild (SAG), a trade union, and so retain pension and health-insurance benefits.

Awkwardly, the details had been unearthed by another journalist at the *Reporter*, who then resigned (as did the editor of the paper) when the publisher spiked his story. The offending column was suspended—and has since been cancelled—while the publisher and SAG investigate the allegations. The paper continues without an editor.

Variety too was briefly without an editor last month, following the suspension of Peter Bart, a former studio executive whose influential weekly column takes moguls and actors to task for everything from their business decisions to their dress sense. A profile in *Los Angeles Magazine* reported him airing derogatory views on homosexuals, blacks and Jews, and also alleged that he had tried to sell a film script he had written, in contravention of editorial policy.

A foul mouth and a script to sell are hardly rare crimes in Hollywood, but the article elicited a series of shocked reprimands, some of them doubtless from former victims of Mr Bart's pen. Mr Bart was duly suspended by *Variety*'s publisher, and reinstated on August 30th only after pronouncing himself “deeply sorry” and agreeing to undergo “diversity training”. *Variety* judged the film-script allegation to be false.

Whether the rumpus will change much at the papers is doubtful. Hollywood's wheeler-dealers like the feeling that their news is written by people who understand them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Logistics

From cul-de-sac to crossroads

Sep 6th 2001 | BAD HERSFELD
From The Economist print edition

How German reunification transformed a small town's economy

AS THE old adage has it, only three things matter about property: location, location and location. In Bad Hersfeld, they know how true this is. In 1989 the town was a dead end. It lay just inside West Germany, in the “Fulda gap”—supposedly the likeliest route for a Soviet invasion. Now Bad Hersfeld is slap in the middle of united Germany, with a motorway crossroads on the doorstep. Trucks, not tanks, rumble north, south, east, and west.

kp

The change has attracted a clutch of firms that need to send goods punctually all over Germany. The next arrival, bringing 110 jobs to start with, will be RS Components, a catalogue supplier of electrical and mechanical parts. Its managing director, Lothar Weisse, says that he expects goods ordered before 8pm to be delivered to customers the next day. Mr Weisse's next-door neighbour will be Amazon, where 550 people work: all orders from the online bookseller's German website are received, processed and sent out from a 42,000 square-metre (452,000 square-foot) site south-west of Bad Hersfeld.

The first (and biggest) such investor, German Parcel, saw Bad Hersfeld's attractions in 1988, even before the Berlin Wall fell. Rico Back, its boss, wanted a central hub for his parcel-delivery service. The ideal spot, he said, was within “400km from every place where we had a depot.” But when reunification came, he says, “it was perfect. It gave us a terrific advantage when we started.” The company could have had land around Eisenach, in the former east, much more cheaply, but the extra few kilometres would have cost too much time, and therefore money.

However, for a while no other company followed German Parcel's lead. Indeed, a few years ago it seemed that the opening of the border had hurt the economy. After the wall fell, says Roland Hühn, the area's *Landrat* (chief administrator), there was a short-lived boom: easterners came shopping for western goods, and western businessmen and tourists filled local hotels. Thereafter business and subsidies flooded east. Meanwhile, Bad Hersfeld had lost subsidies it had previously enjoyed because of its proximity to the border. The unemployment rate climbed to about one in eight.

Now unemployment has fallen to around the national average rate. The logistics business provides work not just for locals but also for many workers who commute daily from the former East Germany, where joblessness is much higher. German Parcel runs a daily bus for its eastern staff.

There has been more to the recovery than geography. Although investors around Bad Hersfeld receive some state help, about twice as much is on offer across the former border. Investors speak highly of local officials, who make a point of clearing administrative obstacles quickly. An example is the speedy planning approval for Amazon's site. Amazon first spoke to officials in January 1999, says the company's local manager, Paul Niewerth. The first parcels were delivered the following September.

Despite all the lorries rolling close by, Bad Hersfeld is still a pretty spa town. The planners have been careful to keep lorries out of residential areas, says Mr Hühn, and in any case people are glad to see work coming in. The German government's plans to encourage rail freight and discourage road haulage will not make much difference, he thinks: punctuality matters to Bad Hersfeld's investors, and road will stay a better bet. The upgrading of a road to the north of the town could make the area more attractive still, says Mr Hühn. And there is still land available.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The European car industry

The art of overtaking

Sep 6th 2001 | BARCELONA
From The Economist print edition

How to succeed in Europe's overcrowded car market

NEXT week's Frankfurt Motor Show will see the appearance of a whole range of new models, as Europe's car makers jostle for position in a market that is stagnant and afflicted with overcapacity. Ford of Europe and GM Europe are making the biggest efforts to stem their losses: GM last month signalled dramatic cuts at its Opel subsidiary in Germany. By contrast the European car companies, having already made some big reductions in recent months, are devoting most of their attention to new product development. At Frankfurt, Volkswagen (VW), for instance, will show off its new small Polo (and its new chairman, Bernd Pischetsrieder, former boss of BMW), while Ford will introduce its latest small car, a rejuvenated version of the ageing Fiesta.

The trick is to manage the flow of such products so that offerings in the marketplace always remain reasonably fresh, without wasting profits on excessive investment in updates or re-design. If a car company gets this aspect of the product cycle wrong, it soon suffers.

Take Renault, which is fast losing market share in Europe after a generally good performance since the mid-1990s (see chart). According to analysts at Schroder Salomon Smith Barney, an investment bank, the company has a product range with an average age of almost five years, compared with an industry average of about four. Not surprisingly, Renault's successful, but older, models such as its Mégane medium saloon and its compact minivan Scénic, are beginning to lose ground to rivals.

Another company struggling with the product cycle is Fiat, whose share of the Italian market is at a historic low of around 25%, compared with the 50% it enjoyed in its heyday ten years ago. This week Fiat Auto took the wraps off its new Stilo model aimed at the market for medium-sized cars, which accounts for 25% of European sales. It is a market dominated by Volkswagen with its Golf and Passat models; the Golf alone has almost 18% of the market's 4m cars a year.

kp

Strength such as this allows VW to dominate the entire passenger-car market, with 18.9% of sales by volume, helped by the addition of the Audi, Seat and Skoda brands, which boost the 11% share of cars bearing the VW marque. VW's trick is to make dozens of differently badged models using the same basic bodywork, a ploy known as platform-sharing in which VW is the acknowledged leader.

Small wonder that the new Fiat Stilo, like Ford's latest version of the Mondeo saloon, bears more than a passing resemblance to a VW Passat. It is altogether a more solid, better equipped model than anything the Italian car firm has offered this part of the market before. Fiat needs to impress customers with bigger models, because its car division has been incapable of making decent profits for years. Small cars account for 70% of sales, but success depends on having a product range as wide as VW's.

Fiat's product-cycle problem seems most acute in medium cars. As Paolo Cantarella, the company's chief executive, admits, its products have proved capable of winning a 10% market share but have then failed to hold it for more than a couple of years. He is counting on the Stilo to grab 10% of sales, which would amount to 400,000 a year, and holding that position for around its six-year life, instead of fading rapidly to under 5%, as Fiat's current medium models have done.

The way that Fiat hopes to achieve this is by using new manufacturing technology that allows for significant changes to update the Stilo without big investment. Fiat is using so-called “space-frame” technology. The car body can be made longer, shorter, wider or narrower simply by adding or subtracting strips from the floorpan. Conventional mass production requires a completely new underpinning for a variant on the model, entailing heavy investment. So Fiat reckons that it now has the ability to keep the Stilo fresh and popular, always assuming that it sells well in the first place.

The clearest proof that good product planning and a timely flow of new models are crucial to success is the performance of PSA Peugeot-Citroën. As David Moorcroft, an analyst at Commerzbank, points out, its climb from 11% to over 14% of the market (a 25% improvement in market share in only two years) has coincided with the introduction of six new models. PSA shares have risen by 50% in the past year, as its profits have boomed, eclipsing its arch-rival Renault, which was the darling of the late 1990s. Of course, it could just be that Peugeot is enjoying its days in the sun, and the clouds will soon come over. With overall sales down by only 1%, Europe's car industry seems so far to be riding the economic cycle surprisingly smoothly, but some companies are wobbling badly on the product cycle.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Face value

Surviving Wall Street's blues

Sep 6th 2001
From The Economist print edition

Richard Fuld's Lehman Brothers is a rare investment bank that is thriving

A DESTABILISING feud among senior executives, high costs, dud mergers, confused strategies and tough markets. That is life today at most investment banks. It was life, too, for Dick Fuld at Lehman Brothers in the early 1980s, when he was a lone dissenter unsuccessfully trying to stop his once great firm from being swallowed up by Sandy Weill's Shearson American Express.

Today, Mr Fuld presides over an independent Lehman that is by several measures the best-managed investment bank on Wall Street, and is certainly the most stable. Although he is still only 55, he has already been chief executive for nearly eight years, giving him longer tenure as head of a Wall Street firm than anybody but the 68-year-old Mr Weill, who now runs Citigroup. Under Mr Fuld is a team of senior executives who have been together since 1996, another record. Most extraordinary of all, in a business where many jobs exist only until the next bad quarter, the average tenure in Lehman's upper ranks is 22 years.

Lehman's resurgence started to get widespread attention only this summer, when it announced strong profits at a time when most investment banks were dealing with disaster (see chart). That it took a crunch to raise Lehman's profile is largely a result of the excitement it deliberately avoided in recent years. There have been no splashy acquisitions, no managerial coups and no lay-offs. Most of its large competitors have had all three.

Of expensive acquisitions, Mr Fuld comments baldly, “we could not figure out how to make them pay.” That is an insight that victorious bidders are only now learning. Lehman, indeed, has feasted on others' confusion. It has hired talented refugees without paying a takeover premium, or pushing up the share of revenues devoted to staff pay, a number that has become as much a benchmark for ranking investment-bank performance as profits.

These new recruits have helped to transform Lehman from a bond house into a much broader-based firm. This year alone, Lehman's share of equity underwriting has grown from 3% to 7%, of high-yield underwriting from 5% to 7%, and of total global investment banking fees from 4% to 5%, according to Thomson Financial, a data service.

Lehman has cut costs too, but it has not yet made any lay-offs. Nor are the cuts falling with particular brutality on employees at the lowest level,as is happening at so many other firms. Its employees are rewarding this benign treatment and showing their confidence in the company's future with their own money. While others on Wall Street are dumping stakes in their own banks, as in the case of executives at Donaldson Lufkin Jenrette or former partners at Goldman Sachs, the proportion of Lehman that its employees hold has grown from almost nothing at the time of its spin-off from American Express in 1994 to 33% now. In a sense, the company is becoming more like a partnership once more.

On our side

A veteran of several other investment banks says that one reason for Lehman's stability is the unusual sense among many staff that the firm is working for them. This is a testimony to Mr Fuld's consistency. When not at Lehman, he is often in New Hampshire and Vermont watching his daughters play for their respective college sports teams, or his younger son play hockey. New recruits are told that slipping out during the afternoon for several hours to see a child's game or a school play is a laudable use of time. “This is a transient business,” he says. There should be a life beyond work.

At the office, Mr Fuld is always easy to find. When he became chief executive in 1993, he dispensed with a remote executive suite. Now, he lives in a glass-walled box off what appears to be an employee highway. To broaden his contacts, he routinely invites to breakfast 45 people from different areas of the firm who do not know each other. They are expected to pitch ideas on how to improve Lehman.

This inclusive managerial style is a direct product of Mr Fuld's experience in the early 1980s. Then, he watched Lehman come perilously close to falling apart in a divisive power struggle. Investment bankers and traders were at odds, each led by powerful personalities. The right to be made a partner was tightly, and in the perception of many, unfairly, controlled. Worse still, says Mr Fuld, many people appeared to take the view that, “we are stars: pay up.”

Merging with Shearson did not solve these problems. Its specialism was retail, Lehman's was institutional. The cultures never mixed. In 1993, when American Express decided to get out of the investment business, the retail part was sold to Mr Weill's newest creation, Smith Barney, which ultimately morphed into Citigroup. It was not clear that anybody wanted the rest. Lehman's re-emergence in 1994 coincided with a bear market for the fixed-income business that was then overwhelmingly its main activity.

Its survival in doubt, one-fifth of the firm's staff were sacked. That was a wrench but it brought some benefits. Strict guidelines on costs and expected returns were imposed—and kept even after conditions improved. The cuts allowed a dramatic cultural transformation. People were asked whether they could work as a team. “If not, we offered to get them out of the firm the right way,” says Mr Fuld.

In the mid-1990s, the company introduced a unique compensation scheme that pays the heads of each of Lehman's five divisions identically. That creates incentives for people in thriving areas to help embattled colleagues rather than, in the time-honoured Wall Street way, to join forces against them. In hard times, most investment banks show a remarkable instinct for self-mutilation. Mr Fuld's firm may gain from his memory of the last time that happened.

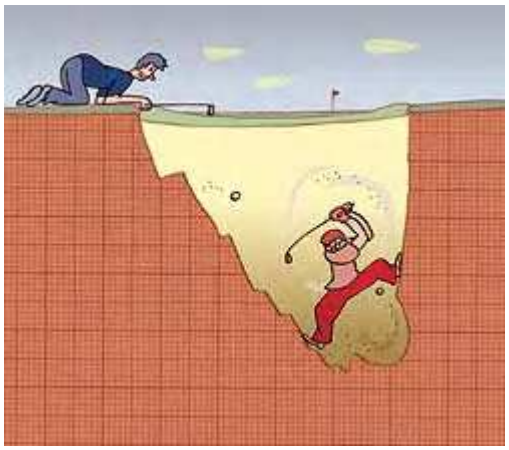
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Driven to the same depths?

Sep 6th 2001 | NEW YORK AND TOKYO
From The Economist print edition

Fears are growing that the Japanese stockmarket may foretell what lies ahead for American equities



WHEN the Nikkei stockmarket average touched its all-time high of 38,915 on December 29th 1989, the Dow Jones Industrial Average stood at just 2,753. This week the Nikkei fell to a 17-year low of 10,410, closing in fast on the Dow which, despite a half-hearted attempt at a traditional post-Labour Day rally, has been bobbing around 10,000 as it too loses its fizz. Shares in the rest of the world have followed their downward lead; the Morgan Stanley Capital world index of stockmarkets is down by 7.6% since July and by 17.9% so far this year. How much worse can things get?

On Wall Street, hope springs eternal, and not everybody thinks the game is up. Abby Joseph Cohen, a notorious bull at Goldman Sachs, still expects the market to be significantly higher by the end of the year—ie, she expects the S&P 500 index to rise to 1,500 from today's 1,100. The bulls even have some better economic news to support them: this week, the National Association of Purchasing Managers' index of new orders was at a 16-month high, suggesting that manufacturing at least may have bottomed out.

On the other hand, corporate profits show no sign of touching bottom. American unemployment is rising and that may dampen consumer spending, which is what has kept the economy alive over the past year. Moreover, economic growth continues to slow in the rest of the world, particularly in the big economies of continental Europe and Asia.

Japanese manufacturers' pre-tax profits dropped by 21.2% between April and June, according to a survey published by the Ministry of Finance on September 5th. How to value Japanese shares remains almost as controversial as it was during the bubble, not least because accounting measures of profit and assets often bear little relation to reality. Although the stockmarket has dropped sharply in recent months, price/earnings (p/e) ratios still average around 34.

As ever in Japan, prices are being moved by things that have little to do with fundamental valuations. Japanese banks have been aggressive sellers of shares, in part because they will be required to mark their assets to market at the end of September, and they want to cash out as much as possible before the true state of their capital (in)adequacy becomes clear.

Foreign investors have been quite keen on Japanese shares too. According to Avinash Persaud of State Street, which tracks international portfolio flows, overseas investors have bought the equivalent of 1% of Japan's market capitalisation since the end of July, making it (proportionately) their fourth favourite market. One reason may be that Japan is no longer any more bubbly than markets elsewhere, including America's and Europe's, where shares have also been falling. Moreover, foreign investors may be taking advantage of locals selling at distress prices.

Forever bursting bubbles

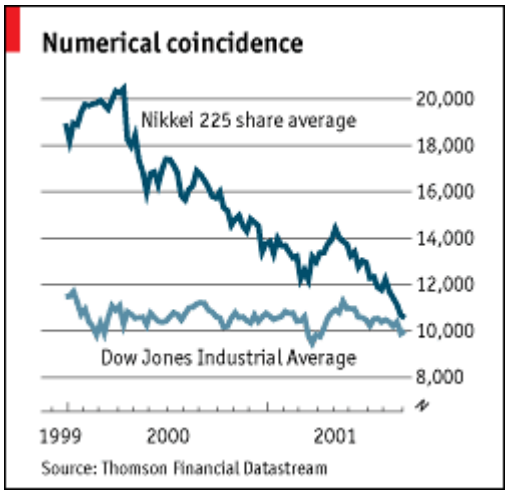
Japan's continuing troubles nearly 12 years after its bubble started to deflate should be a salutary lesson to any investor tempted to think that the bursting of America's own bubble is largely over. No two bubbles are alike. Indeed, history suggests that “bubble” is not the perfect metaphor, at least for the

end-game. The quick “pop” is less typical than the prolonged sickness, remission and relapse of a cancer victim.

After the crash of 1929, share prices did not bottom for three years. And when the long bull market peaked in 1965, it did not bottom in real terms until 1982. The fall in American share prices over the past 16 months, particularly in the Nasdaq, may be only the beginning.

Even at current levels, American shares remain expensive. They have not tumbled as far as profits, at least as measured under generally accepted accounting principles (GAAP). By this measure, the average p/e of the S&P 500 index exceeds 37, an all-time high. Even using operating profits (adjusted to ignore claimed one-off costs), the average p/e is 23. In 1929 and 1965, the peak p/e was 21. Today's ratios are well above the average for the past century (of 14) or the 17-18 which Jeremy Grantham of Grantham, Mayo, Van Otterloo, a fund-management firm, reckons is now the trend ratio.

His firm has enjoyed spectacular success in the past 16 months because of its bets that the bubble in American shares would burst, and that key price ratios that were out of line would revert to their long-run means. In April 2000, the firm calculated that the Nasdaq—then near its peak—would need to fall by 70% to reach its “fair value”. It also expected that the historical relationship between value and growth shares, which had never been further away from trend, would reassert itself, which it now has.



If anything, the Nasdaq is now less overvalued—at around 1,700, compared with a fair value of 1,250—than the bigger company indices, such as the Dow and the S&P 500, says Mr Grantham. Assuming that p/e ratios return to 17-18, profit margins slip from 8% to 6%, and that sales per share grow at (an optimistic) 3.6%, it would require the S&P 500 to deliver annual real returns of -0.5% in each of the next ten years, or else record an immediate 40% decline, to return to fair value. Mr Grantham thinks it will get there in the end, though maybe only after a short-term rally of up to 20% as investors get excited by evidence that the economy is turning up—and before they realise this is not delivering much in the way of profits.

Investors still have a lot of faith in equities. Most American institutions have allocations to shares of around 70% of their portfolios. Flows from individual investors into equity mutual funds have slowed, but would probably accelerate if the stockmarket were to show signs of life. Past bubbles have not ended until most investors have not just turned bearish, but given up. It may, alas, take a lot more pain before it comes to that.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Commerzbank

A suitable suitor?

Sep 6th 2001 | FRANKFURT
From The Economist print edition

Unicredito is the bank's latest rumoured partner

AP

High-rise and fancy-free

"WHAT'S wrong with being taken over," asks Klaus-Peter Müller, chairman of Commerzbank, "if it's good for your organisation?" Might it be good for Germany's third-biggest independent private bank? Given the right partner, the right time, the right business idea, says Mr Müller, "we'd be crazy not to evaluate that situation carefully."

Rumours that somebody, somewhere is about to take over Commerzbank are almost always in the Frankfurt air. "I've been reading this for 30 years now," says Mr Müller, a veteran of the bank who became chairman in May. The latest story, after a summer full of names, is that Unicredito, an Italian bank, is in talks with the Germans. Unicredito says nothing is in the offing; Commerzbank will not comment.

One reason for the speculation is Commerzbank's size. With a market capitalisation of around *euro*15 billion ($13.3 billion), it is overshadowed by Deutsche Bank (*euro*46 billion) and HypoVereinsbank (*euro*23 billion), the product of another merger in 1998. It looks relatively smaller still now that Dresdner Bank, a rival with which it held abortive merger talks last year, has been bought by Allianz, an insurer.

Moreover, Cobra, a group of investors that is one of Commerzbank's biggest shareholders, has long been griping about the bank's share price and itching for a decent bid. That Commerzbank already has Italian connections adds some spice to the latest chatter. Unicredito owns 9.5% of Mediobanca, an investment bank which in turn has 1.1% of Commerzbank and 14% of Generali, an insurer that owns 9.9% of the German bank, with which it also has an exclusive insurance-distribution deal. Commerzbank, in turn, has small stakes in both Generali and Mediobanca.

Of Commerzbank's long-standing clutch of cross-shareholdings with other European banks, the Italian links are the only ones that it considers strategically important. "Mediobanca has opened for us the doors to corporate Italy," says Mr Müller who, coincidentally, was on holiday this week in Italy.

Bank analysts have long been expecting some cross-border bank mergers in Europe. Commerzbank's modest size and traditional strength in serving medium-sized German companies might offer a neat way into Europe's biggest banking market. The bank is trying to build on its old base, by adapting some investment-banking products for medium-sized companies. And it thinks it is on to a good thing; this business is too small for the big investment banks, and too big for Germany's savings banks and co-operatives.

Nonetheless—another reason for all the takeover talk—Commerzbank looks weak, and not just because of its modest size. Its cost-income ratio, a common measure of efficiency in the industry, is a giddy 78%. Granted, Deutsche's and Dresdner's costs are similarly embarrassing. However, Commerzbank's have climbed even faster, and its return on equity slumped to a miserable 4.5% in the first half of this year, far behind its rivals and a long way short of its long-term target of 15%.

The new chairman has other problems to sort out. Asset management, he says, is one source of disappointment. Another is the foreign operations of comdirect, the bank's online broking business. A decision on their fate is due in the next few weeks. In some respects, though, says Mr Müller testily, the bank is doing better than its critics allege.

Thus in Germany, where online brokers have been going through the mill, comdirect has been doing “amazingly well”. Then there is investment banking, where a lot has been spent in the past few years building a business from scratch. Too much, muse some; and a second-tier outfit like Commerzbank may be more vulnerable than, say, Goldman Sachs and Morgan Stanley when business is thin.

But Mr Müller insists that his investment bankers “have done a marvellous job”. Commerzbank is making money in investment banking, he says, even while losing it in some traditional activities. True enough: the investment bank's return on equity was 10.2% in the first half of this year, while retail banking made a loss.

Given all its weaknesses, though, is the bank worth buying? It may be more attractive if Mr Müller does as he has promised, and reduces its costs. He wants to trim the bank's “oversized” information-technology budget which, he says, has hitherto contained too many “nice-to-haves”. “Some people seem to believe that IT primarily serves the purpose of making their own daily lives a bit more comfortable. But that's not my understanding of it.”

Asked whether he thinks the bank will stay independent, Mr Müller answers indirectly. People should start thinking about the European market rather than national ones, he says. “Look around, and you find many other banks have the same problems that you have. Good banks, well managed in their own countries, but absolutely unprepared for Europe.” Cross-border mergers are coming. In the meantime, the gossip keeps on flowing.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Europe's high-tech economies

Swedes chopped

Sep 6th 2001
From The Economist print edition

Finland, Ireland and Sweden have been differently affected by the tech bust

AP

Ireland's not the gateway it used to be

THE “new economy” may not have pushed deeply into Europe, but it has certainly had an impact on the European periphery. Ireland, Finland, and Sweden, ranked by consultants PricewaterhouseCoopers as the top three information and communications technology (ICT) economies in Europe, have been testing their parachutes as the technology market has taken a dive.

Sweden has come off worst. Only a year ago, tech-savvy Swedes were bubbling with enthusiasm for their new economy. And with good reason. In a few short years Sweden had changed from being an unsustainable welfare state in the grip of recession into one of the most vibrant centres of ICT activity outside Silicon Valley.

Drawn by a unique combination of high Internet and mobile-phone penetration (around 50% and 70%, respectively), technology companies from all over the world chose Sweden as a testing-ground for third-generation (3G) telecoms products. Sweden's market leader, Ericsson, enjoyed some fat years in the world's telecoms-infrastructure business. And many young Swedes, degrees in hand, eschewed stable jobs at large companies in favour of chances with risky Internet start-ups.

But faster than you can say *irrationell glädjeyra* (irrational exuberance) the mood turned sober. Business confidence in future activity has plummeted to its lowest in eight years. Ericsson, which alone accounts for 8% of Sweden's GDP, is having a terrible time. It has announced plans to cut about 20% of its workforce, and is on the verge of spinning off its beleaguered mobile-phone division.

An enormous outflow of capital has weakened the already depressed krona, which has put the Riksbank, Sweden's central bank, in a pickle. It has been the only rich-country central bank to raise interest rates this year.

By contrast, the outlook in Finland and Ireland remains good. GDP growth is expected to slow to about 3% this year in Finland and 8% in Ireland—less than they have enjoyed in recent years, but rates to be envied by Sweden, which will be lucky to reach 2%.

Part of the reason is that the technology boom was less bubbly in Finland and Ireland because it was more or less confined to producing goods. In Sweden, on the other hand, a glut of venture capital helped it spread to more speculative ICT investments. For Ireland, the moderation was more by accident than by design. Its success has been based on attracting foreign direct investment by multinationals, whose focus is on producing ICT equipment for the European market. Moreover, its telecoms infrastructure remains undeveloped—Internet penetration is only 30%—which has inhibited the rise of Internet start-ups.

Finland is a different case because it could have taken Sweden's route. To understand why it did not, look at Nokia, the company to which Finland owes much of its rise to new-economy stardom. Nokia's management has exerted a strong centripetal force over the Finnish high-tech sector, drawing a vast network of suppliers into the company as partners. Likewise, most managers recruited by Nokia have stayed with the company. That is quite different from Sweden's Ericsson, whose management has sprouted a string of entrepreneurs eager to branch out, frequently with unfortunate results.

The Swedish consumer has also been more exposed to the ICT downturn. Roughly two-thirds of Swedish households own shares, perhaps more than in any other country in the world. When the Swedish telecoms operator, Telia, was privatised, 1m of Sweden's 9m citizens bought shares. It was a bad investment as it turned out: Telia shares have fallen to 50% of their issue price.

Stockholm's OMX stock index has lost 50% of its value since its peak last year, wiping out a quarter of Swedish households' net worth. Consumers have recoiled—consumption grew by a scant 0.1% in the second quarter. Finnish households have been less hit by fluctuations in the stockmarket, despite the fact that the Helsinki index (of which Nokia accounts for roughly two-thirds) has crashed even more spectacularly than the OMX. The reason: 90% of Nokia is foreign-owned, mostly by Americans.

Finland and Ireland may yet follow Sweden down, but if they do it will be because of an accumulation of job cuts. Ireland is starting to get worried. Recent plant closures by Gateway and General Semiconductor have made the Irish Development Agency nervous because they involve not only job losses, but a loss of capital for Ireland.

To date, about 4,500 jobs have been cut in the foreign-owned ICT sector, out of a total of 55,000. But unemployment has yet to rise because new job offers have continued to arrive. For example, three days after General Semiconductor announced 680 job cuts, 380 new offers were on the table.

Finland's fortunes depend on Nokia, which has weathered the downturn relatively well. It has increased its market share at the expense of its rivals during the past year, even as overall demand for mobile phones has plummeted. It now produces one in every three mobile phones sold in the world. Finland may have all its eggs in one basket, but so far the basket has proved quite sturdy.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Equity research

Virtue as its own reward

Sep 6th 2001 | LONDON AND NEW YORK
From The Economist print edition

Rescuing the credibility of analysts

WHAT'S this? Investment analysts cleaning up their act? After Prudential Securities, an American stockbroking firm, announced a reform of its equity analysis in June, HSBC, a British bank, this week proposed a new system of its own. The bank vowed that “our research has to help clients to outperform.” To that end, its analysts will in future rank the shares that they recommend within their sector and reduce their “hold” recommendations.

Even after the “new economy” bubble burst in 2000, many analysts continued to push technology stocks. Highly praised shares then tanked, while those not favoured did rather better. This has happened before, but rarely have analysts been so wrong. As a result, angry investors are suing, regulators are devising new rules to bolster the analysts' independence, and investment banks are rethinking their equity research.

Their efforts are laudable, but they cannot solve the conflicts of interest inherent in investment banking. Analysts' research reports inevitably upset some companies that are looking for corporate-finance services, and they may then take revenge on the analyst's employer by moving their business elsewhere. Corporate finance is the most lucrative part of investment banking, so the temptation to sacrifice analytical credibility is incredibly strong. At CSFB, research analysts even reported to the investment bankers, a practice that was recently stopped.

Sceptics of the steps taken by HSBC and Prudential point out that neither is a big name in corporate finance, nor in investment banking proper. It is easier to be virtuous, they say, if you do not have much to lose. Yet even Morgan Stanley and Goldman Sachs, the two market leaders, are looking at reforming their equity analysis. Morgan Stanley recently fended off a lawsuit by irate investors who claimed they were misled by the bullish views of Mary Meeker, the firm's Internet guru. Goldman has already changed the verbose footnote at the end of its research reports. Likely to become a closely scrutinised bit of the report, it now states whether an analyst owns shares in the companies recommended. More radically, Merrill Lynch and CSFB have banned analysts from owning shares in companies they cover.

Whatever these firms do voluntarily may ease the sting of regulation. For tighter regulatory standards are on the way. Richard Baker, a congressman, is currently investigating abuses on Wall Street, and the Securities and Exchange Commission, America's stockmarket watchdog, is looking at regulatory changes. This has induced the New York Stock Exchange and the National Association of Securities Dealers, the two bodies that traditionally set the rules on conflicts of interest and disclosure, also to ponder the issue.

NASD has already come forward with a draft proposal and is reviewing the responses. The final proposal will probably require that investment reports disclose analysts' interests in companies that they have researched, and whether the firm has received any payment from the company over the past year, and if so why.

All this sounds like a strong case for independent investment research. Yet only one reasonably large firm in America, Sanford Bernstein, does not have an investment-banking arm, and its research is largely subsidised by its investment-management business. In Europe, firms that produce independent investment research are even scarcer and less prominent. Not surprisingly, sizeable asset-management firms, such as Fidelity, Putnam and Wellington, are starting to build their own independent research teams.

More generally, the real complaint of retail investors may not be the conflicted nature of Wall Street research but its inability to help them achieve superior returns. “I do not know how Wall Street research

can be worth much if everyone gets it," observes Jack Bogle, founder of the Vanguard Group, America's second-largest fund outfit. "The information goes into the market." It is hard to imagine a new process or rule that will ensure clients outperform.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Zurich Financial Services

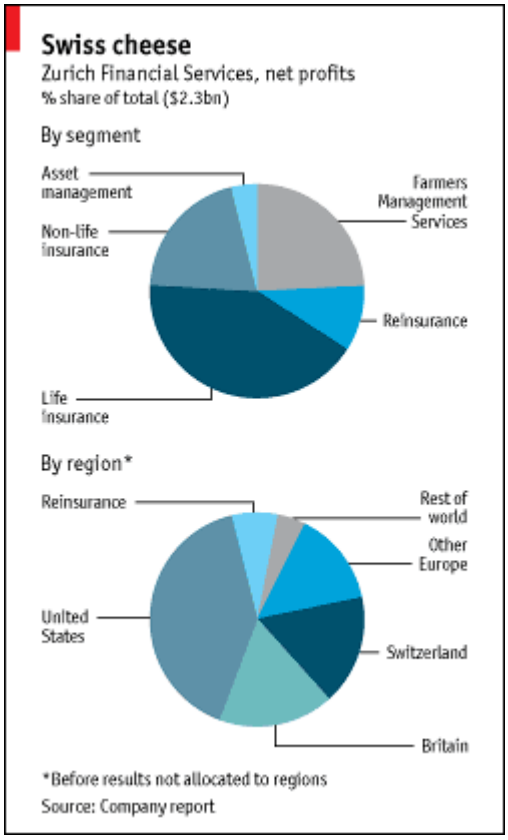
Re structure

Sep 6th 2001 | ZURICH
From The Economist print edition

The Swiss group badly needs a structure to fit its strategy

ZURICH Financial Services' half-year results, announced on September 6th, suggest that the Swiss insurance giant is on the way to meeting its $1.8 billion-2.0 billion profit target for the year and its goal of raising $4 billion from disposals. But it will take more than that to persuade investors that the company is back on track, after a bout of disastrously over-ambitious expansion and misleadingly optimistic corporate communication.

In under five years, Rolf Hüppi, Zurich's chairman and chief executive, transformed the staid Swiss property and casualty insurer into a multinational life and non-life insurer with a substantial reinsurance and asset-management arm. He focused on growth and innovative initiatives, glossing over signs that his expansionary drive had run into trouble. Then, at the beginning of this year, Zurich angered investors with two surprise profit warnings. Its share price dropped from a high of SFr1,000 ($622) in January to a low of SFr525 in March, and it has barely recovered since.



It was not Zurich's expansion per se that got it into trouble. It was its failure to adapt its structure to its new incarnation. When Allianz and AXA, its German and French rivals, grew through merger and acquisition they changed their management structures to suit their new strategy. Zurich's management organisation, on the other hand, remained roughly the same, a hybrid of centralism and decentralisation. “This structure works with a dozen business units,” says Christopher Hitchings, an industry analyst at Commerzbank. The problem is that today it has to stretch across Zurich's 350-or-so business units.

Another problem was the failure of Mr Hüppi to select and groom a successor. The diminutive executive was the driving force behind Zurich's expansion, but when disgruntled investors called for his resignation after Zurich announced in March that its net profit for 2000 was 28.7% down on the previous year (at a time when AXA was reporting record earnings), nobody was in a position to take over.

Mr Hüppi may yet be forced to undo many of his own ventures himself. Like other European insurers, he went into the American market and got burnt. He bought Kemper, a troubled American life insurer, and Scudder Stevens & Clark, a fund-management firm in New York, putting them together as Zurich Scudder Investments. However, the quintessential New York firm was not up to its new role as a global fund manager, and it consistently underperformed. This week Deutsche Bank reportedly bid up to $3 billion for Zurich Scudder, putting Mr Hüppi under pressure to sell.

Mr Hüppi's pioneering Internet strategy for Zurich's American operations was similarly off-beam. A few weeks ago, Channelpoint, an online insurer backed by Zurich, announced its fourth round of lay-offs this year. And Mr Hüppi's experiments with hedge funds and private equity at Capital Z, an alternative investment firm in New York, could yet end in tears. Two weeks ago, Zurich's shares dropped steeply following rumours of huge losses in Capital Z's private-equity investments. Zurich denies the losses.

Zurich's ventures in Britain have had a happier ending, albeit at a high cost. In September 1998, the Swiss company merged with the financial arm of BAT Industries. This thrust it into the first division of insurers and fund managers in Europe, but turning around BAT required a gargantuan effort and billions of dollars to be spent on a special dividend to BAT shareholders and share buy-backs from British investors who could not own Swiss stock. Yet most of Zurich's British businesses are now doing well.

Once it has sold Zurich Scudder and Zurich Re, its reinsurance arm, the group will be able to focus on its core businesses, life insurance and property and casualty insurance, at a fortuitous moment. The insurance industry, which is strongly cyclical, is expected to recover soon. Life insurance, especially in Europe where pensions will increasingly be privately financed, has enormous potential.

Mr Hüppi is now, not before time, streamlining the group and simplifying its management structure. In July, he announced a pooling of Zurich's 11 global and regional businesses into five business divisions, each headed by a chief executive. One of them, Dinos Iordanou, was made *primus inter pares* with the cumbersome title of senior executive vice-president. Mr Hüppi may have anointed a crown prince.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Tobin tax

Roasting an old chestnut

Sep 6th 2001
From The Economist print edition

Unexpected support for a tax on cross-border capital flows

CRITICS of rootless global capital may have new friends in high places. In a comment on television that was opaque even by French standards, Lionel Jospin last month hinted at his approval of a tax on cross-border capital movements. The French prime minister was backing a Belgian plan to discuss the “Tobin tax” at this month's meeting of EU finance ministers. This week, Germany's chancellor, Gerhard Schröder, joined the fray by calling for greater debate on “speculative financial transactions”.

James Tobin, an American economist, first proposed a tax on cross-border capital flows in 1972, amid the collapse of the Bretton Woods system of fixed exchange rates. Details of how such a tax would work remain sketchy. Some proposals call for taxing only short-term transactions, while others would require differentiating between speculative trades and others. Estimates for the levy range from 0.1% to 1% of the value of each foreign-exchange transaction. Some Tobin tax supporters want to keep the rate flexible, so that it can be raised in times of crisis.

The tax got a brief boost in 1992-93 when hedge funds seemed to threaten the dream of European monetary union. George Soros, for example, famously bet against the pound and forced the British government to abandon its membership of Europe's exchange-rate mechanism in September 1992. A year later, the mechanism was blown apart after the French franc was driven down by hedge funds betting on its devaluation. Once the fuss died down and monetary union stayed on course, however, the Tobin tax faded from the European agenda—until now.

In other parts of the world, currency speculation has remained controversial. It has been blamed for devaluations (and subsequent economic crises) in South-East Asia in 1997, in Russia in 1998 and in Brazil in 1999. Speculators are now seen as a menace to Argentina's dollar-pegged exchange rate. In each case, demands for Tobin-type taxes have been heard.

Today's anti-globalisation activists view the tax more as a fat new source of cash than as a tool for exchange-rate stability. Groups such as Britain's War on Want and France's Attac want to use the tax to fund development projects in poor countries. They have lobbied European finance ministers vigorously. Voters sympathetic to these groups are just the sort that Mr Jospin needs to win his May 2002 bid for the French presidency.

A Tobin tax, however, would be both unwise and unworkable. It is true that only about 2% of the more than $1,500 billion in daily foreign-exchange transactions reflect direct trade in goods and services or investment in real assets; the rest is, in some sense, speculative. But it is hard to distinguish between the two, and speculative trading provides essential liquidity to the markets.

In any case, speculators could easily avoid a Tobin tax, unless every country on the planet agreed to implement it. Traders could operate tax-free through offshore banks and use financial derivatives to skirt national laws. This would make it impossible to collect anything close to the $250 billion a year promised by the tax's proponents.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Productivity growth (cont'd?)

Sep 6th 2001
From The Economist print edition

The IT revolution has boosted America's productivity growth, but will it last?

LAST weekend, about 100 central bankers and economists from around the world met in the Rocky Mountain resort of Jackson Hole for the annual symposium of the Federal Reserve Bank of Kansas City. The occasion was distinctly chillier than a year ago: the conditions for white-water rafting were colder, and the participants were less warm about American productivity growth.

The theme of this year's conference was the information economy. A year ago, Alan Greenspan, chairman of America's Federal Reserve, had argued that American productivity growth was still accelerating. This year he suspiciously avoided the subject, devoting his speech to a seemingly unrelated topic. But it is clear that he still believes that the productivity miracle is alive and well.

At last year's meeting, an informal poll of participants put trend productivity growth at around 3%, up from 1.4% in the 20 years to 1995. This year, most plumped for a figure in the 2-2.5% range. This follows the recent downward revision of productivity growth from an average of 3.4% in 1999-2000 to 2.6%. New figures this week trimmed productivity growth in the year to the second quarter to 1.5%.

The most optimistic view was presented by Larry Summers, formerly America's Treasury secretary. In a joint paper with Bradford de Long, an economist at the University of California at Berkeley, he argued that, as long as the rapid pace of technological progress—and hence the decline in prices of IT equipment—continues, it will encourage firms to find new uses for IT. As a result, IT spending will grow as a share of GDP, and trend productivity growth will be as fast or faster than it was in the late 1990s. Mr Summers reckons that the sustainable rate of productivity growth is around 3%.

Martin Baily, a former chairman of President Clinton's Council of Economic Advisers and once a big productivity optimist, was more cautious. He reckons that some of the spurt in recent years was temporary. Mr Baily estimates that future productivity growth will be towards the low end of the 2-2.5% range.

The productivity debate is surrounded by statistical fog. The optimists in Jackson Hole argued that productivity growth is being understated by official statistics. The conventional productivity numbers are based on the output measure of GDP. However, the income measure of GDP has recently been growing faster than the output measure, and some economists, including Mr Greenspan, believe that it is more reliable. In addition, many of the benefits of IT, such as improvements in the quality of goods and services, are not captured by the official statistics.

The true economic impact of IT may therefore be bigger than it seems. But in practice this may not matter for monetary policy. The future path of inflation depends upon the amount of slack in the economy, as measured by the output gap—the difference between actual GDP and potential GDP (productivity growth plus labour-force growth). To the extent that measurement errors distort both actual GDP and estimates of potential GDP, the output gap should not be affected.

Overshooting the rapids

Moreover, as Mervyn King, deputy governor of the Bank of England, pointed out at Jackson Hole, there are measurement errors on the other side. Conventional GDP, he argued, does not allow for the depreciation of capital goods—so it exaggerates productivity gains. A better measure is net domestic product (NDP). In normal circumstances the growth of GDP and NDP are identical, but the two will differ

when the average rate of depreciation of the capital stock changes sharply—as it has in recent years.

As the composition of investment has shifted from traditional machinery towards shorter-lived assets, such as computers and software, the average rate of depreciation has increased. A bigger chunk of the rise in gross output is simply replacing capital that wears out each year. This should not be counted as a genuine productivity gain.

During the transition period to higher depreciation rates, both actual and potential GDP will be distorted upwards by the same amount. As argued above, this should not affect the size of the output gap. However, the artificial boost to measured productivity growth is temporary. In the long run, as the economy reaches its new higher rate of depreciation, GDP growth will slow to converge with the growth in NDP. Estimates of productivity growth based on current GDP will therefore lead to inflated expectations of future potential growth. If GDP is adjusted for depreciation, this would shave half a percentage point off productivity growth since 1995, cutting it from 2.4% to 1.9%.

One benefit of faster productivity growth is also likely to be temporary, for quite another reason. Over the past five years there has been a favourable shift in the relationship between unemployment and inflation: unemployment fell to its lowest for 30 years, yet inflation remained low. One likely reason is that workers' wage demands tend to be based on previous real wage rises plus inflation.

In the long run, real wage increases are determined by productivity growth. But if productivity growth suddenly increases, workers are initially happy with the previous pace of real wage gains, so unit labour costs decline, allowing both unemployment and inflation to fall. Once workers try to catch up, the old relationship will re-emerge and the unemployment rate consistent with stable inflation will rise back to its previous level of above 5%, from a low of 3.9% last year.

Thus, even if productivity growth remains at its rapid pace of recent years, American unemployment will rise. Profits will also be squeezed. The fall in unit labour costs over the past few years temporarily boosted profits. When investors realise that future profits growth will be lower, share prices may fall further.

If productivity growth slows from its pace of the past few years, the results could be worse still. Unrealistic forecasts of future productivity growth have inflated share prices, encouraged a borrowing binge and pushed up the dollar. If expectations are disappointed, all these could go painfully into reverse.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Pharmacology

A bigger pill to swallow

Sep 6th 2001
From The Economist print edition

Today, almost all drugs are made from small molecules. That may soon change

POWDERY pink pills; gelatinous blue orbs; spheres and oblongs of all shapes, sizes and colours: the rainbow array of tablets on sale today might make you think that drugs themselves are an equally diverse lot. But all this gay variety is mere window-dressing. The curious fact about medicines is that, in molecular terms, they are so alike: small and soluble in water.

A few years ago, Christopher Lipinski, a chemist at Pfizer's research laboratories in Groton, Connecticut, scoured a list of over 2,000 drug candidates that were in clinical trials, in a search for the elusive qualities that make a molecule "druggable". He found four. First, drug molecules were almost always small, with a molecular weight less than 500 times that of a hydrogen atom. Second, they contained fewer than a total of ten nitrogen and oxygen atoms. Third, they had five or fewer "hydrogen-bond donor sites"—ie, places in which a hydrogen atom was linked to an atom that was keen to get rid of it. And fourth, they were soluble in fat as well as in water.

The list of drugs is now over 7,000 compounds long, and as many as 90% of them obey these rules. It is easy to see why. Dr Lipinski's *dicta* act as a sort of molecular dress code. As in fashion, less is frequently more: unobtrusive, simple styles go farthest. Small compounds can diffuse through the gut-wall into the bloodstream without being destroyed by digestive enzymes. They can penetrate cell membranes, because they are not sporting too many gaudy atoms and abrasive bonds, and because of their fat solubility (cells' outer membranes are made of fat). Also, it does not hurt that small compounds are cheaper to manufacture in bulk than big ones (nobody said this was *haute couture*).

Size, however, isn't everything. Small molecules may be good at insinuating themselves into cells, but their size often stops being an advantage once they have arrived. One reason for this is that many diseases stem from problems with interactions between proteins, or between proteins and nucleic acids (the chain-like molecules that form genes and genetic messengers). These are big, and small molecules often have difficulty interfering with the actions of molecules many times larger than themselves. Also, when they do have a chemical impact, it is often quite a broad one. Lacking specificity, they interfere with all sorts of cellular pathways, thus creating unpleasant side-effects.

In response to these problems, drug makers are starting to think bigger. Biochemists have known for decades that drugs made from "macromolecules", such as proteins, protein fragments (known as peptides) and nucleic acids, could manipulate cells with a power and specificity that small-molecule drugs lack. However, such compounds break all of Dr Lipinski's rules. They cannot simply be swallowed, as the harsh acids of the stomach would make short work of them. And even if they somehow reached the bloodstream, they might be locked out of the cells they were aimed at: cell membranes are almost impermeable to large peptides and nucleic acids, because these molecules have so many abrasive bonds.

So, if macromolecules are to be made into drugs, researchers need to get round two problems. First, they must find a way to smuggle these compounds into the body (ideally without injecting them, which is uncomfortable for patients). Second, they must work out how to slip macromolecular drugs past the membranes of the cells that need them.

Getting there is half the fun

Fittingly, it is insulin, the macromolecule with the longest history of use as a drug, that is serving as a guinea pig for new delivery techniques aimed at the first of these problems. At a recent meeting of the American Chemical Society in Chicago, Nicholas Peppas and Aaron Foss, two biomedical engineers from Purdue University, announced that it might soon be possible to take insulin in pill form. When protected by a coat of acrylic gel that can withstand stomach acid, insulin is able to reach the small intestine, where it is absorbed into the blood—at least in diabetic rats and dogs. Dr Peppas and Dr Foss reported that 16% of the drug in the pills reached the bloodstream. That is enough to control diabetes.

A firm called Genteric, based in Alameda, California, is also trying to exploit the process of digestion to deliver insulin into the blood. Its approach, though, relies on nucleic acids. It is developing a “gene pill” which, when swallowed, would insert the gene that carries the blueprint for making insulin into cells lining the intestinal tract. These cells, the theory goes, would then produce insulin and release it into the bloodstream as if it were a nutrient from digested food.

In the view of both research groups, their work is as much a proof of principle as a specific way of treating diabetes. If either method works for insulin, it could be generalised for the delivery of proteins that now lack any delivery mechanism. If neither does, another route, via the lungs, might offer an alternative.

Using the gut to deliver drugs relies on the fact that it has evolved specifically for the task of absorbing chemicals into the body. The lungs do this, too. In particular, they absorb foreign bodies that are too deeply embedded to sneeze up, using an “active-transport” system that pulls those bodies into the bloodstream for elimination. It is possible to exploit this system to insert proteins into the blood. Once again, insulin will be one of the first proteins to be delivered in this way. A dry powder form of inhalable insulin called Exubera, made by Pfizer and Aventis, is expected to reach the market first. Two other drug makers, Eli Lilly and Novo Nordisk, are working on similar offerings.

Inhalation may also breathe new life into another old idea in macromolecular therapy: so-called “antisense” drugs that interfere with the process of protein making. Antisense drugs inhibit the action of a type of nucleic acid called messenger RNA (mRNA). These messengers provide the templates from which proteins are assembled. A molecule of mRNA is a copy of one of the two strands of the double helix of DNA that makes up a gene. If it encounters a copy of the other strand from the same gene, the two will react to form a new double-stranded molecule, a process that inactivates the mRNA. Since the original mRNA strand carries the “sense” of the gene, the complementary, inactivating strand is known as “antisense”.

Such antisense strands can pick out their mRNA targets with pinpoint accuracy. An antisense drug should thus be able to knock out a particular protein (by stopping its manufacture) without touching any others. In practice, antisense technology has proved a disappointment. Several firms have tested injectible antisense drugs, but the nucleic acids involved, being large molecules, could not diffuse easily across cell membranes. Large doses had therefore to be administered to get any results. These large doses, in turn, resulted in nasty side effects.

EpiGenesis, a biotechnology firm based in Cranbury, New Jersey, reckons that it can avoid these problems. The interior of the lung is coated with a surfactant: a detergent that reduces water's surface tension and increases the range of chemicals that can dissolve in it. This appears to encourage lung cells to take up nucleic acids. The company's leading candidate, an anti-asthma drug, is therefore an antisense molecule that can be inhaled.

The drug works by blocking the expression of a protein called the adenosine A1 receptor. This substance is produced in asthmatic lungs but not in healthy ones. The heightened absorption provided by the surfactant means that EpiGenesis's drug works in low doses. Somebody injected with antisense molecules may require a dose of several grams to produce an effect. Only a few milligrams are required if you breathe them.

It will take more creative thinking to deliver macromolecules to the interiors of other, less accessible, cells. One promising technique borrows a page from the enemy's book, by employing the peptides that viruses use to infiltrate cells. HIV, the virus that causes AIDS, uses a peptide called Tat to penetrate the membranes of cells it infects. Recently, Steven Dowdy, of Washington University, St Louis, linked a series of large proteins to Tat peptides, and exposed them to cells. The proteins were able to enter the cells intact.

Dr Dowdy has shown that the technique works in mice as well as in cell cultures. If it also works in people, and if it can be used to deliver genes, lots of macromolecular therapies may soon line chemists' shelves. Some day, Dr Lipinski might even have to revise his conditions.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Therapeutic antibodies

Seed v seed

Sep 6th 2001
From The Economist print edition

Mass-producing some drugs may require green fingers

WAIT till the Greens hear about this—let alone the Catholic Church. It was bad enough when evil boffins were genetically modifying plants to make them more nutritious, or more resistant to pesticides. Now Epicyte, a company based in San Diego, is growing crops meant to kill human sperm.

Secretory antibodies are proteins of the immune system that coat the wet, warm parts of the body to protect them from attack. Both the fight against sexually transmitted diseases, such as herpes, and efforts to stop pregnancy would be helped if women's reproductive tracts were supplemented with appropriate antibodies. Epicyte has now produced anti-sperm and anti-herpes antibodies in gel form. But such products have to be made in bulk to be cost-effective.

Usually, mass-producing antibodies involves building an expensive fermentation plant in which bacteria designed to make the compounds are grown in large quantities. Epicyte decided that plants of a different kind could do the job more cheaply: green ones. Despite outward appearances, genetically modified maize plants seem perfectly able to make human antibodies. “Plants”, according to Mitch Hein, the chief executive of Epicyte, “are very much more like humans in their cellular structures than people realise.”

Maize seeds are also an ideal storage place for proteins, as they offer a dry, stable environment with very little of the water that might degrade fragile antibodies. Once the seeds have been harvested, the antibodies can be extracted and turned into medicines.

The beauty of Epicyte's antibody “factory” is the ease with which its capacity can be expanded. When the company needs to produce more antibodies or to broaden its range of products, it can avoid the capital costs of building another fermentation unit by simply planting another field. Assuming it is not destroyed by protesters, of course.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Gallium arsenide semiconductors

Arsenic and chips

Sep 6th 2001
From The Economist print edition

An old contender's time has come

IF THE technology boom and bust depended on anything physical, it was silicon. Extracted from humble sand, silicon is the raw material of information technology, as the vast majority of computer chips are made from it. The reason that computer performance has been improving so rapidly is that the density of circuits etched on to silicon wafers has increased. But engineers are now running into the physical limitations of silicon. So there is a renewed interest in replacements.

An announcement from Motorola suggests that one long-awaited replacement may have arrived. Gallium arsenide (GaAs) has seemed a likely alternative to silicon ever since the earliest days of semiconductors. Chips made of GaAs have several desirable properties, because the electrons in them are extremely mobile. They use less power than silicon, and they have much higher switching speeds—nearly 70 GHz (billions of cycles per second), as opposed to silicon's best of 2 GHz. So they can process information faster. And they are very efficient at converting light to electricity, and vice versa, which makes them ideal for the branch of information technology known as optoelectronics.

Unfortunately, GaAs is costly and brittle. That has restricted its applications to things for which there is no alternative. For years, engineers have sought a way to create chips that combine silicon with GaAs, thus reducing both cost (by employing GaAs only in places where it is needed) and brittleness (by backing it with more supple silicon). They have been thwarted because the crystalline structures of silicon and gallium arsenide do not mesh, so the GaAs components will not stick in place. Now Motorola, following up a happy bit of serendipity, seems to have found a way to join the two.

In 1999, some of the company's researchers developed what was then the world's thinnest transistor. This was made by depositing a microscopic layer of strontium titanate on a bed of silicon. Making it was hard, because of the persistent tendency for a layer of oxygen molecules to interpose itself between the strontium titanate and the silicon. However, while he was studying this problem, Jamal Ramdani, one of the team, noticed that the oxygen also causes the strontium titanate to relax into a crystalline structure that meshes nicely with GaAs. The fit is not perfect, but it provided an opening. Strontium titanate could, in principle, mesh with both silicon and GaAs. It therefore offered a way to stick the two together.

In the intervening years, Motorola has worked out the practical details, produced prototype GaAs-silicon hybrid chips, and has now tested them in mobile phones. That is a big market. A typical mobile-phone handset contains six or seven GaAs chips, which are used as amplifiers and high-speed switches.

Running mobile phones is not, though, the only use to which these chips are likely to be put. More than $35 billion has been spent over the past two years laying some 200m kilometres of optical fibre around the earth. There is a glut of capacity of high-speed, long-distance pipelines, but very few points of access. This is because the optoelectronic technology needed to switch signals from electrons to light, and back again, has been expensive. Until now. Motorola's new chips may, with luck, make the fibre glut useful at last.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The new astronomy

Silent running

Sep 6th 2001 | MAUNA KEA
From The Economist print edition

Astronomers do not look through telescopes any more

ONE of the most enduring images of science is that of the astronomer, alone in his observatory, peering through a telescope at the mysterious heavens above. But, like so many other things in this high-tech age, astronomy has moved on. In the telescopic capital of the world—the summit of Hawaii's largest mountain, Mauna Kea—more than half a billion dollars' worth of observatories lie virtually deserted, except for a few technical staff.

Every day, hundreds of tourists make the trip to the summit, to see this impressive array of telescopic power. But the last person they are likely to find up there is an astronomer. Such messy things as human beings are not even allowed inside the operational domes; these thoroughbred pieces of scientific gear are so sensitive that an astronomer's body heat would deform the telescope's steel and mirrors enough to mar the accuracy of the light-gathering equipment. Computer-controlled refrigeration ensures that the instruments are cooled perfectly to match the predicted ambient temperature for an evening's viewing. With telescope time at the largest observatories costing $35,000 a night, any hours wasted acclimatising the structure are extremely costly. In any case, the photons of light that travelled hundreds of millions of light-years from the farthest reaches of the universe are no longer captured by eyes, nor even by photographic plates. Instead, they are converted into an unromantic stream of ones and zeros, which can be transmitted anywhere—to the base of the mountain, or even to universities in other countries.

Astronomers do still make it to the observatories, but the journey is as much a pilgrimage as a necessity. Last month, one young astronomer from Durham University in England arrived on the mountain simply to see the machine she was going to be using.

As if this were not enough to ruin a lovely fantasy, it seems that the chances of finding any astronomer who knows what a particular star or constellation is called are also distressingly low. Understanding the universe requires physics—a lot of it. Many astrophysicists are less interested in where something is in the sky than in what it is, and how it works. Ian Robson, director of the Joint Astronomy Centre in Hawaii, when indicating the major features of the night sky one evening, said he makes a point of knowing such things. Why? Because people expect him to. But as far as professional astronomers go, he belongs to a dying breed.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Autumn fiction

Big, bold, bare and spare

Sep 6th 2001
From The Economist print edition

Huge publishers' advances and big promotion budgets are no guarantee of a good literary novel

IN TWO paired novellas under the common title of “The Hunters”, Claire Messud draws readers into the inner lives of people completely dislocated from society. So expertly does she succeed that we begin to see the world with their distorting eyes as they try to impose order to cocoon them against outside chaos, anaesthetise them from pain.

The Hunters
By Claire Messud

Harcourt; 182 pages; $23. To be published in Britain by Picador in February

Buy it at
Amazon.com
Amazon.co.uk

The first is the story of Maria, who at the age of 15, at the start of the second world war, is uprooted from her family and sent through a succession of forcedlabour camps in Ukraine. In one she marries a Pole with whom she emigrates to Canada at the end of the war together with their baby son. However, as an old woman in a land of plenty, her husband dead, her son Radek transformed into the Canadian Rod, Maria's world shrinks. She works as a cleaner, her only peace being the rhythms of dusting and vacuuming, the ritual of coffee. In her own house the furniture is protected with polish, the sofas and floors wrapped in plastic, safe from harm and time. But when she steps away from this small, safe world, she is forced to face the misery of her real loneliness. Sitting on a boat, her grandchildren splashing in the water nearby, her son fishing with his back to her, her daughter-in-law swigging beer from a bottle and loudly flicking the pages of a glossy magazine, she feels a more profound sense of not belonging than ever before. She is “a tiny rootless fact, an irrelevance”. It is only when she believes everything is at an end that Maria is able to connect with her son in a way that she has never allowed herself. Then, she removes the plastic layers from her furniture and emerges from her cocoon.

The narrator of the second novella is a nameless, genderless American academic spending a lonely summer in London researching a book on death. From a rented flat in an unfashionable part of London, the narrator views life through the large windows as if watching a stage. The narrator's own life is both God-like in its removed superiority, and dog-like in its basic patterns of feeding, sleeping, working. He/she has become so removed from humanity that the sound of the doorbell ringing evokes only panic and terror. A neighbour, an ugly, desperately lonely woman, becomes through the narrator's eyes a repulsive and deeply sinister figure. The narrator feels hunted by her. It is only later, when a surprising new-found love renders the narrator human again, that he/she faces the tragic consequences of this peculiarly distorted vision.

Ms Messud's writing is filled with a rich imagery of life, sights, smells, sounds, in stark contrast to the deadening effect of life with few human connections. The torments of the two narrators as they struggle to and from humanity, barricading themselves with plastic and glass, is touching and unsettling. It is hard to imagine readers not sensing the flutter of anxiety at her words.

THE title of Jamie O'Neill's long-awaited first novel is a play on Flann O'Brien's “At Swim-Two-Birds”, which James Joyce, nearly blind, read with a magnifying glass in 1939 and pronounced “a really funny book”. In contrast, “At Swim, Two Boys” is not a funny book, but it still manages to wear on its sleeve that same Irishness, handed down by Joyce and O'Brien, which may be why Scribner was

At Swim, Two Boys
By Jamie O'Neill

Scribner; 656 pages; £17.99. To be published in America by Scribner in

prepared to pay an advance of £1m ($1.5m) for it.

March

Buy it at
Amazon.co.uk

The setting is Dublin in the year that led up to the brave but ill-fated Easter uprising of 1916. The two boys are Jim Mack, a shaded figure whose brother is fighting in France and whose father runs the local corner shop but harbours grand ambitions, and the far more clearly etched “Doyler” Doyle, who has climbed out of his Dublin slum on the back of a college scholarship. Each to the other is “pal of my heart” and the boys seal their intimacy after a brave swim across Dublin bay to raise the green flag on the Muglins, an uninhabited rock with a lighthouse beacon.

Mr O'Neill's story is as affecting as you would expect, given the historical setting. But the wordiness of the language, all charmingly Irish and topsy-turvy to begin with, ends up by getting so badly in the way that it undermines the author's every effort at making characters of his boys.

The Corrections
By Jonathan Franzen

Farrar, Straus; 576 pages; $26. To be published in Britain by Fourth Estate in February

Buy it at
Amazon.com
Amazon.co.uk

A GREAT American novel has been expected from Jonathan Franzen since the mid-westerner first appeared on the New York literary scene in 1987, precociously young and ferociously serious in his literary intent. During the decade that it has taken him to write “The Corrections”, he has struggled with the problem of how to engage with a culture where the main problem is a lack of engagement. The conclusion he seems to have reached is to bludgeon the reader with his social despair.

In telling the story of the lives of two generations of the Lambert family as they come together for one last family Christmas, Mr Franzen looks behind the shiny veneer of American society and finds it hollow. His America is a lonely place populated by people who spend and medicate their way out of depression and are so busy correcting themselves that they forget to connect with each other. Mr Franzen is an astute observer and at its best the writing can be utterly authentic. His portrait of the patriarch Alfred descending into senile dementia—a more acute form of his life-long sense of dislocation—is particularly fine. However, as the novel stretches to capture every aspect of hyperkinetic American culture the simple structure of the plot proves too flimsy to sustain the sub-plots and social commentary piled upon it, and this ambitious novel proves to be truly great in length alone.

Peace Like a River
By Leif Enger

Atlantic Monthly Press; 320 pages; $24. To be published in Britain by Doubleday in February

Buy it at
Amazon.com
Amazon.co.uk

GUNS, God, and hot cinnamon rolls—this novel is so middle-American you wonder if there's a catch. But no, Leif Enger from Minnesota is in earnest. The teenage Davy Land, who sets the plot in motion, is able not only to shoot a flying goose with thrilling accuracy, but to kill a man as well—two in fact, villains both. “How many times does a dog have to bite before you put him down?” he asks, and in defence of his family (especially his nine-year-old sister, Swede) he blows them both to kingdom come. The narrator is Reuben, Davy's 11-year-old asthmatic brother, an inarticulate Huck Finn to the Tom Sawyer of the staggeringly precocious Swede. Like Tom, she is the myth maker, and her wild-west reading spills over into a long cowboy ballad composed in the intervals of home cooking, about a “good” outlaw, Sunny Sundown, whose heroic escapades cast an epic glow over the fortunes of Davy. The father, mother and sole guardian of this trio is Jeremiah, a born-again Christian and miracle worker.

Davy busts out of jail and vanishes into the snow, leaving his family to pursue him and his moral significance with nothing but God and Sunny Sundown for guidance. They in turn are pursued by the federal police who hope to be led to their quarry. Their loyalties are nicely caught in that classic American dilemma: the individual conscience (Davy) versus the state—“the putrid fed”, the children call it.

Mr Enger can turn a cool phrase and there are powerful descriptions, particularly of the hellish, fiery-fissured geology of North Dakota, and magical ones of a glimpsed Heaven. But he can be portentous and sentimental, and there is at times a queasy self-consciousness about this homespun, plainfolks tale. The brothers meet a tramp in the woods, and Reuben says: “It's tempting to assign him the duty of harbinger. But I doubt he was. A tramp can be just a plain tramp you know.” Faux naif is fine, but you need to know how to do faux. Otherwise, naif is better.

Year of Wonders: A

JOHN DRYDEN'S “Annus Mirabilis”, his year of wonders, was set in 1666 when the plague scorched London, driving the king and his court to Oxford and Samuel

Pepys to Greenwich to escape contagion. In her first novel, Geraldine Brooks avoids the grand and the literary and focuses instead on a small village in the lead-lined Derbyshire hills which is untouched by the disease until a damp bolt of cloth arrives from the capital carrying with it the bubonic infection.

Novel of the Plague
By Geraldine Brooks

Viking; 320 pages; $24.95.
Fourth Estate; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Ignorant and terrified, the villagers turn to their young, charismatic preacher, Michael Mompellion. He persuades the village to immure itself in self-imposed quarantine in the belief that the scourge is a punishment sent by God. The heroine is the reverend's 18-year-old maid, Anna, a widow who quickly loses her two young sons. Anna's is a marvellous story. Through the rituals of childbirth, illness and death, she fights the villagers' fear and fanaticism, sorcery and witch hunts, and at the end of the novel is utterly redeemed by her courage.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Washington chronicle

Inside out

Sep 6th 2001
From The Economist print edition

DAVID HALBERSTAM is intrigued by America's elites, and though critical of their mistakes, he remains at heart an admirer. He empathises easily with their careers and concerns, admires their devotion to public service and has a novelist's fascination with the way its members' lives can connect, diverge and re-connect again over long periods. “The Best and the Brightest” (1973) was his classic account of the policymakers who led America into Vietnam. “War in a Time of Peace” is about a later Washington generation that did not lead their country into Bosnia.

War in a Time of Peace: Bush, Clinton, and the Generals
By David Halberstam

Scribner; 543 pages; $28. To be published in Britain by Bloomsbury in April

Buy it at
Amazon.com
Amazon.co.uk

Everything that is most admirable in his new book reflects Mr Halberstam's primary passions as a writer and former war correspondent for the *New York Times*. The book is not quite what its sub-title promises—an analysis of civil-military relations in the United States during the 1990s—but rather a finely crafted and enjoyable account of the shared culture and personal chemistry of America's political and military power-brokers.

There are neatly executed pen portraits of scores of individuals—not only politicians, diplomats and generals but also journalists, such as Christiane Amanpour and Roy Gutman, whose crusading reportage from the Bosnian killing-fields helped to make American policy more assertive.

While the book also touches on the crises in Haiti and Somalia, and crams the air war against Serbia over Kosovo into three of its 44 chapters, it is essentially about American policy towards Bosnia. It begins by explaining why the administration of George Bush senior stayed out of the Balkan crisis during its early phase—although it included some old Yugoslavia hands. Mr Halberstam points out that America was preoccupied at the time with the Gulf war and with ensuring the peaceful break-up of another communist federation, the Soviet Union.

As he describes the Clinton team's evolution from relative impotence in Bosnia during its early months to dynamic involvement in 1995, Mr Halberstam gives a sympathetic hearing to the foreign-service officers who protested strongly because America seemed to be condoning Serb atrocities, about which the United States, with its signal and satellite intelligence, was uniquely well informed.

The narrative switches back and forth from Washington's corridors of power to the Balkan war zones. In one section, Mr Halberstam betrays his empathy with the elite by making repeated use of “we” to refer to the government. He is less convincing when describing what actually happened in the Balkans—unsurprisingly, given that the book is based almost entirely on American sources. Not many people from the Balkans, or anywhere in Europe, appear to have been consulted.

Indeed, if the book has failings, they reflect the author's relatively uncritical attitude towards the powerful and sophisticated Americans who form his subject matter. Because of this identification, Mr Halberstam holds back from asking some really hard questions about America's policy in the Balkans, including its role in the final months of the Bosnian war.

The received version, retold by Mr Halberstam, is that Bill Clinton and Al Gore vowed to “bomb the Serbs” and end the war when they were shocked to learn that thousands of Muslims had been massacred at Srebrenica. But, the reader cannot help asking, was news of this impending massacre—the worst in Europe since 1945—really not available to America's two most powerful figures beforehand?

At earlier stages in Bosnia's war, when Muslim strongholds like Gorazde or Bihac had been on the verge

of falling, America had worked (without the promise of ground troops) to galvanise its allies—insisting that battle-plans be drawn up, and threats of bombing be issued, so as to warn off the Serbs. Yet in the final days and hours of the advance on Srebrenica, which American intelligence could monitor closely, Washington fell strangely silent. Srebrenica duly fell, with consequences which were unspeakable in human terms, but not inconvenient diplomatically.

Perhaps it is conspiratorial to assume that America's tardy reaction to Srebrenica reflected calculation rather than negligence. But the question needs asking, and it is unlikely to be asked by an observer like Mr Halberstam, who has come to think the best of America's brightest.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Hollywood's civil war

Extra special

Sep 6th 2001
From The Economist print edition

THE extras in movies about the American civil war are often keener on authenticity than the film's director. They are recruited from the ranks of re-enactors: civil-war buffs who spend their holidays restaging the battles of 1861-65.

The Reel Civil War: Mythmaking in American Film
By Bruce Chadwick

Knopf; 384 pages; $27.50

Buy it at
Amazon.com
Amazon.co.uk

The hardcore dislike the term “re-enactor”, preferring to be called historical interpreters. In the field, they confine their diet to salt pork, hardtack and other civil-war rations, limit their speech to mid-19th century topics and wear period underwear beneath their scratchy wool trousers. Some can even “do the bloat”. As described in Tony Horwitz's affectionate “Confederates in the Attic” (1998), bloaters swell their bellies, curl their hands, puff out their cheeks and contort their mouths until they are a flawless counterfeit of the corpses in the famous battlefield photographs of Matthew Brady.

In this lively (though cringingly titled) survey of how American films have handled the civil war, Bruce Chadwick applauds the presence of the buffs for giving films an authentic look that was lacking in earlier movies. Film makers benefit too, as the extras bring their own tents, weapons and uniforms. What is more, they are cheap: for the film “Gettysburg” (1993), each re-enactor group cost only $1,000, plus $10 per day per man.

Whether the plots of the films and their characters are also more authentic than they used to be is debatable. As Mr Chadwick, a lecturer on history and film at Rutgers University, sees it, most producers, writers and directors of Hollywood civil-war films are myth makers.

The lost-cause films, running from D.W. Griffiths's silent film, “Birth of a Nation” (1915), through to “Gone with the Wind” (1939), are filled with inventive nostalgia for an earlier agrarian, and supposedly more gracious, American life. The stock historical imagery of such films tends to include mint juleps, stately mansions with white-columned porticos, landscaped lawns and sunny fields of cotton in which contented darkies labour.

And there's the catch. Hollywood's moonlight-and-magnolia romances came normally with the direst caricature of black slaves. The women are overweight, overwrought black mammies; the men silly, shuffling fools when they are not primitives on the prowl.

In many modern films the caricatures are reversed: slave-owners are white trash, and slaves, in Mr Chadwick's words, “honourable family men and women, God-fearing and righteous people who live good lives in bondage.”

But Mr Chadwick does not despair. The occasional civil-war film is almost as authentic as its extras. In his view, they include “Glory” (1989), about the north's first black regiment, and “Gettysburg”, which was filmed, with unusual attention to tactical detail, on the battlefield itself.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Environmental scrutiny

Doomsday postponed

Sep 6th 2001
From The Economist print edition

THIS is one of the most valuable books on public policy—not merely on environmental policy—to have been written for the intelligent general reader in the past ten years. Its target is environmental pessimism, the defining mood of the age. By the end, fair-minded readers will find that most of the concerns they had about the future of the planet have given way to fury at the army of dissembling environmentalists who have dedicated themselves to stirring up panic by concealing the truth.

The Skeptical Environmentalist: Measuring the Real State of the World
By Bjorn Lomborg

Cambridge University Press; 540 pages; $69.95 ($27.95 paperback) and £47.50 (Ã‚Â£17.95 paperback)

Buy it at
Amazon.com
Amazon.co.uk

The idea that the world is heading for ruin seems to be taken for granted by almost every television news programme and newspaper, whether the subject is poverty in Africa, global warming, trends in population, traffic jams in Manchester or a spell of bad weather in Detroit. This gloom directly affects the debate on environmental policy, of course, but its influence goes wider than that. It supports the conviction that capitalism is self-destructive, and so lurks in the background of many an economic debate, broad or narrow. Yet this faith in looming environmental disaster, Mr Lomborg shows, is false.

The author is a professor of statistics at the University of Aarhus. His expertise lies in numbers and sources. So in “The Skeptical Environmentalist” he examines the views of the world's leading environmental pressure groups simply by consulting the sources (if any) they cite, together with other relevant literature. Again and again, he finds that the pessimists' claims are falsified not merely by the available scientific evidence but by their own quoted sources.

The accumulating power of the book lies in the sheer toll of carefully documented examples. Bearing that in mind, consider just one, to get a flavour. The Worldwatch Institute has claimed that the world's forests have “declined significantly” in recent decades. In fact, the longest data series, gathered by a United Nations agency, shows that global forest cover grew between 1950 and 1994. In particular, the institute noted, Canada is losing 200,000 hectares of forest a year. On checking the quoted source, Mr Lomborg finds that Canada's forests grew by 174,000 hectares a year. This is representative: the book exposes countless errors, evasions and distortions of this sort.

As well as insisting on statistical probity, Mr Lomborg brings another intellectual virtue to the task: an interest in feasible alternatives. On global warming, for instance, he shows that standard claims about the extent of the problem are deliberately exaggerated (though he does not deny that some global warming is going on); beyond that, however, he asks about costs. The cost of preventing warming could easily outweigh the harm caused by letting it happen, and by a very wide margin, depending on the method. If concern for developing countries came first (and that is where global warming will cause most harm), there would be much better ways of spending money than on schemes such as the Kyoto plan. Providing universal access to clean water would do more good than the tiny cut in warming envisaged by Kyoto, at about a fifth of the price.

Mr Lomborg is not the first to take a stand of this sort against the excesses of the environmentalist movement. He follows in the footsteps of the late Julian Simon, one of the 20th century's unsung heroes of economics. (Mr Lomborg generously acknowledges Simon's role.) But Simon was a quirky conservative, and therefore ignored by the mainstream media. Mr Lomborg is a soft-left Greenpeace defector, a photogenic blond Dane, a charming self-promoter who understands the importance of, as he puts it, “being seen to be nice”. That makes him a story. His findings have caused a furore in Scandinavia and, with this book, show signs of being noticed elsewhere. Good. More power to him. “The Skeptical Environmentalist” is a triumph.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Catholic anti-Semitism

A case to answer

Sep 6th 2001
From The Economist print edition

IT WAS brave of the present pope, John Paul II, to have encouraged the Catholic church to ask itself painful questions about whether it shares any responsibility for the Holocaust. But when at last it answered these questions, did the church let itself off too lightly? David Kertzer, an American historian, has no doubt of it. His new book draws on newly released archives to demolish the case the Vatican has made in its own defence.

The Popes against the Jews: The Vatican's Role in the Rise of Modern Anti-Semitism
By David Kertzer

Knopf; 368 pages; $27.95. To be published in Britain by Macmillan in January

Buy it at
Amazon.com
Amazon.co.uk

In 1998, at the pope's behest, a Vatican commission published a report, "We Remember: A Reflection on the Shoah". This acknowledged that certain misguided interpretations of Christian teachings had contributed to the centuries of discrimination against the Jews in Christian Europe. But the report sought to make a distinction between this older history, which had largely come to an end by the beginning of the 1800s, and a new form of anti-Semitism that sprang up in the 19th century. It was this new form, drawing on new theories of race and "more sociological and political than religious", that culminated in Nazism. Such racial doctrines, claimed the Vatican's 1998 report, contradicted the core beliefs of the church, which had always condemned them.

Far from it: this supposed distinction between the two kinds of anti-Semitism, and therefore the case for the defence, falls apart under Mr Kertzer's painstaking analysis. If Jews began to acquire equal rights in the 18th and 19th centuries, it was only over the indignant protests of the Vatican. And far from confining itself to a "religious" anti-Semitism, the church played a major part in shaping its modern, political form. Although never calling for or approving of the mass murder of the Jews, it subscribed to and disseminated all the rest of the notorious libels against them. Jews were not guilty of religious error alone; they were a rapacious and amoral people, bent on world domination, who needed to be kept in social quarantine lest they infected the Christian population.

The first part of Mr Kertzer's indictment deals with the conduct of the papal states in the 19th century. At a time when Jews were gaining equal rights elsewhere in Western and Central Europe, here after all was one place where the popes wielded temporal power and could treat the Jews exactly as they liked. The record is a dismal one. When Napoleon's revolutionary armies occupied Rome in 1798 and again in 1809, the French allowed the Jews to leave the ghetto and enjoy equal rights. One of the first actions of Pius VII when he was restored to power was to drive them back. Rome's Jews were briefly emancipated again in 1848, when Garibaldi and his troops seized Rome. Two years later, in 1850, the return of a pope, this time Pius IX, resulted again in a return to the ghetto and the reintroduction of the old restrictions.

With the demise of the papal states, Mr Kertzer suggests, the Jews there were made free but the Vatican became imprisoned in a mental ghetto of its own. From it, a church that felt embattled by secularism and modernity came to look upon the Jews not as pathetic souls to be saved by conversion but as insolent masterminds plotting the destruction of all that was holy. In logic, the church could not endorse the notion that the Jews were biologically inferior, since Jesus was born a Jew. Nor could it argue that the Jews were irredeemable, since this would contradict what the church taught about regeneration in Christ through baptism. But neither of these logical obstacles counted for much when weighed against ancient prejudices.

Taking its lead from the authoritative Jesuit journal, *Civiltà cattolica*, a fast-growing Catholic press spread the word through Europe that the Jews were not just an errant religion but a separate race—a "giant octopus", in the words of a typical *Civiltà cattolica* article in 1893—that did not work but grew fat on the work of others. Not all of these anti-Semitic outpourings had papal authority. During this period, the popes themselves said as little as possible about Jews. But they did not denounce the spreading anti-

Semitic poison, even when petitioned to. They were, in fact, less willing than the popes of previous centuries even to repudiate the blood libel, the medieval superstition that Jews murdered Christian children in order to drink their blood, which enjoyed a renaissance in the last decades of the 19th century.

There are, of course, shades of black and grey in Mr Kertzer's story. He closes in 1938 on the eve of war, when an ailing Pius XI, genuinely moved, broke down during a meeting with Belgian visitors and called anti-Semitism a hateful movement that Christians could take no part in. But a draft encyclical in which he had intended to condemn anti-Semitism was not issued, and its drafters had in any event been careful to underline that the church's hopes for the Jews' ultimate conversion should not “blind her to the spiritual dangers to which contact with Jews can blind souls, or make her unaware of the need to safeguard her children against spiritual contagion.”

There are no doubt historical arguments that will be made on the other side, as questions of balance and context are advanced in mitigation. But Mr Kertzer's bill of indictment is a formidable one—a reminder of what a mighty institution may choose to overlook when sitting in judgment on itself.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Saudi Arabia's future

Petrobaroque

Sep 6th 2001
From The Economist print edition

Succession in Saudi Arabia.
By Joseph A. Kechichian.
Palgrave; 304 pages; $55

KING FAHD of Saudi Arabia finally dies, after a long illness, to be succeeded by his half-brother Abdullah. Grudgingly, Abdullah nominates one of Fahd's other full brothers, Sultan, the defence minister, as his successor. But the two men, never the best of friends, fall out. A feud erupts. Do soldiers take over, in a coup led by an ambitious young prince? Do royal factions unite round a compromise figure such as Salman, governor of Riyadh province, a younger Fahd brother? Or do the House of Saud and the Saudi kingdom disintegrate operatically into bloody fragments?

Joseph Kechichian, a political scientist at UCLA and consultant on the Middle East, is too shrewd to make firm predictions. But he leaves his readers those three possibilities. And although he intersperses candour with tact, assuring us that the young Saudi princes are smarter and more durable than we tend to think, frankness wins out in the end. Whether you are a soldier, an oilman or a diplomat, or simply want to sell goldplated warplanes or bathtaps to cash-happy Arabians, there is much to be uneasy about.

This is a book that is necessary rather than readable. Arabian genealogy is not many people's idea of fun. “When Abdallah bin Ali bin Rashid came to power in 1835 as ruler of the Jabal Shammar, he was rewarded by Faysal bin Turki bin Abdallah bin Mohammad bin Saud...” If you mistake one *bin* (son of) for another, you will soon lose the thread. But persevere, for Mr Kechichian is unusually well informed. The problem the current generation faces is partly of King Fahd's making. In 1992 he tried ineptly to clarify the question of the royal succession. Future kings should be the “most upright” of the sons and grandsons of Saudi Arabia's founder, King Abdel Aziz. A king could both appoint and remove his successor. The clarification clarified nothing. Fahd opened up the race to more than 200 competitors and he ensured that no crown prince would ever feel secure. And who, in any case, was to say who is more upright than whom?

Mr Kechichian stresses the House of Saud's roots in a conservative, Islamic, tribal society but he does not disguise its difficulties. The biggest problem, ironically, is economic. Saudi Arabia's population growth rate, after years of wealth, is higher at around 3.5% than that of many African countries, and the demographic bulge means that half the population is under the age of 18. Without fresh sources of capital, the Saudi economy cannot possibly expand quickly enough to offer the next generation the welfare grants and grace-and-favour jobs that they have come to expect as their due. But fresh capital means foreign investment, and that will surely mean opening up. This, far more than which *bin* succeeds which, is the real challenge facing the next Saudi king.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Public life on the run

One that got away

Sep 6th 2001
From The Economist print edition

IT MIGHT seem odd, in a country where 2m citizens are behind bars, to single out for notice a particular prison. But Leavenworth, in a pretty part of Kansas, is special. When it opened in 1903, it was hailed as America's state-of-the-art penitentiary. In the hyperbole of the day, America was Eden and Leavenworth its federal purgatory, preparing wrongdoers for re-admission to paradise.

In reality, Leavenworth was a sink of brutality. Beatings were frequent. Inmates wore chains and other devices, such as the metal Oregon boot, which pulled bones from their sockets. Those who managed to escape almost invariably froze on the plains, starved, drowned, or else were cornered and shot through the lungs.

Leavenworth Train: A Fugitive's Search for Justice in the Vanishing West
By Joe Jackson

Carroll & Graf; 432 pages; $26

Buy it at
Amazon.com
Amazon.co.uk

In “Leavenworth Train”, Joe Jackson dwells on one who got away. Frank Grigware was wrongly imprisoned in Leavenworth in 1909, and, once inside, his repeated protestations of innocence earned him only harsher beatings. Mr Jackson takes too long to get us there (half the book, in fact) but Grigware's daring escape and extraordinary later life are gripping.

For 24 years federal authorities tracked him. Yet Grigware had vanished. Some reports had him in Ciudad Juarez in Mexico. Actually, he found his own Eden north of the border, in Canada. This was an inspired choice. Most Americans were oblivious of Canada. “I don't even know what street Canada is on,” Al Capone once quipped. Canadians, in those days, were equally dismissive of gun-toting America.

When J. Edgar Hoover's FBI finally caught up with Grigware in 1934, he was no more. In his place lived James Lawrence Fahey, a respected personage who had chaired a curling club and even been mayor of a small town. Canada balked at extraditing him to the United States. Grigware the escapee was American. Jim Fahey the upstanding citizen and public figure was a naturalised Canadian.

Petitions speaking to Fahey's good character landed on President Roosevelt's desk. The Canadian prime minister, heeding popular appeals, lobbied on Fahey's behalf. The extradition request was dropped. But no pardon was granted. In 1961, the FBI was still spying on him. Grigware-Fahey would have made a fine obituary. But his death in 1977, aged 91, went largely unnoticed: a sad exit for a former mayor, but a good one for a fugitive.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Thomas Bernhard

The grinch who stole Austria

Sep 6th 2001 | EDINBURGH
From The Economist print edition

A satirical masterpiece staged by Vienna's Burgtheater

Heard the one about the four Viennese at the theatre?

OF THE many attractions at the Edinburgh festival this year, a chance to see Vienna's Burgtheater was among the most hotly awaited. This was a rare foreign outing by a company that until recently toured little, and the first modern appearance by the Burg in Britain ever. It showed two plays, Chekhov's "Seagull" in a subtle, dark production by Luc Bondy, and a less well-known piece, a stage adaptation of "Alte Meister" (Old Masters), the last novel by Thomas Bernhard (1931-89), who was post-war Austria's most renowned and controversial writer.

Founded in 1741 as the theatre of the imperial court, the Burg survived, in Viennese fashion, numerous political upheavals, and is now an institution. It is, in effect, the national theatre of Austria and a representative of German-speaking drama generally, though its outlook is totally international, according to its director, Klaus Bachler. The Burg is Europe's largest stage company, with more than 120 actors and a staff of 600. All but 10% of its income comes from the state in a yearly subsidy of about $50m. Despite this, Mr Bachler stresses that the Austrian government never interferes or tells the Burg what to do or not do. "Alte Meister" was a convincing demonstration of its artistic freedom: Austria, we are told in the play, has been living a lie for centuries, and is now the worst state in the world.

From his youth, the author of these challenging words was often ill. His musical ear, astonishing verbal energy and brilliant comic imagination were combined with an almost reckless loathing of contemporary Austria, and of Vienna in particular. In Bernhard's late novels and plays, his compatriots are excoriated for all manner of complacent bad taste and hypocrisy, not least for failing to face up to their country's Nazi past. He lived just long enough to see Kurt Waldheim, an ex-Wehrmacht officer dogged by Holocaust accusations, elected president of Austria. What further bile the electoral breakthrough of Jörg Haider, a far-right populist, would have released in Bernhard is hard to imagine. He left a famous will forbidding publication or performance of his works within the Austrian republic, and though this was more a stroke of posthumous self-promotion than an enforceable legal instrument (it has since been superseded), it reinforced a widespread image of Bernhard as principally an Austria hater, a sort of unhinged super-patriot in reverse.

That image could hardly be more mistaken. Bernhard's writing was indeed rooted in a time and a place, but there was nothing in the least provincial about his misanthropy. Bernhard's grumpy, over-demanding refusal to be reconciled with common humanity and its daily concerns did not stop at Austria's borders. In Bernhard's imaginative universe, everyone whatever their passport was a potential dupe or a let-down. The results at their best soared with inventive abandon.

In the novel “Alte Meister”, the chief characters are Reger, a retired music critic, who sits in Vienna's main art museum each day, complaining ruefully and relentlessly about Vienna and Austria, music and philosophy, art and humanity; Reger's friend and possible biographer; and Irrsigler, a gallery guard serving as an ordinary-man chorus. Part of what makes the novel work is Bernhard's skill—he was a wonderful dramatist, too—at leavening Reger's comic diatribes with the comments and asides of the others. In the stage version, this rich material is thinned out and delivered by several actors posturing like grotesque and frantic clowns in a manner that, alas, does not entirely succeed.

Stephan Miller, who is Swiss and who with Claudia Hamm adapted and directed “Alte Meister”, believes that it succeeded in Vienna because the Austrians like to be insulted. Mr Bachler thinks rather that since his death Bernhard has been transformed from provocateur to national classic, and, like the fool in a medieval court, is now granted freedom to reveal harsh truths by extreme exaggeration.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Product placement in books

Homer did it first

Sep 6th 2001
From The Economist print edition

REPORTS that Bulgari, an Italian jewellery company, has paid a British author, Fay Weldon, “an undisclosed sum” to write a promotional novel, “The Bulgari Connection”, have provoked end-of-summer laughter and tut-tutting. But what is new here? Homer is full of product placements: songs by the Sirens, shields by Hephaestus of Olympia, *shahtoush* woven from Cyclopean wool, not to mention Circe's drugstore on Aeaea. So is the Bible, from Noah's ark and Joseph's coat to the food delivery that catered the marriage at Canaa. Dante plugged the Prada of his day, a louche handbag maker called Guglielmo Borsiere. Shakespeare is littered with generics including Arabian medical gum, Dover samphire and Malmsey wine. Goethe's “Faust” made poodles *schick*, and Jane Austen in “Mansfield Park” pumped the designer gardens of Humphrey Repton. Herman Melville's “Moby Dick” did Nantucket theme holidays a lasting favour, and Henry James nakedly promoted the antique dealers of Edwardian London's sinister Knightsbridge in “The Golden Bowl”. The record doesn't show what “undisclosed sums” any of these authors got. But all of them will have contributed to the world's growing fever of consumerist envy.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Christiaan Barnard

Sep 6th 2001
From The Economist print edition

Christiaan Barnard, heart surgeon and celebrity, died on September 2nd, aged 78

AP

IT WAS a decent enough lifespan, 78 years, but Christiaan Barnard had, it seems, planned to live much longer. In his search for an elixir he injected himself with cells taken from the fetuses of animals. “It's worth a try,” he said. Ageing, he maintained, was abnormal. He was involved with a clinic in Austria that offered “rejuvenation therapy”. He endorsed a skin cream that contained an ingredient said to have prolonged the lives of fruit flies but which was withdrawn from sale after customers complained that it was not working for them.

At Dr Barnard's lectures, for which he charged up to $10,000 a time, his listeners would sometimes become a little impatient when he dwelt at length on his experiences as a heart surgeon; they were keen to know what progress he was making on longevity. Heart transplants are no one's idea of fun, but most people are interested in a few tips about how to put off the trip to heaven.

Relax, take a holiday, put away your mobile phone, drink red wine. But that was not all, said the doctor, in case his listeners felt they were not getting their money's worth. Sex, he said, was the magic ingredient, preferably with romance, “the most beautiful, healthiest and most pleasurable way” to keep fit. It cheered up the audience, even though the advice was not new. Dr Barnard had practised romantic sex ever since he had become famous after performing the world's first human heart transplant in 1967.

To the delight of newspapers, especially in America and Europe, the wonder surgeon was wonderfully photogenic, and had kept his boyish good looks into his 40s. He had a good line in chat too and seemed to love publicity. In the entertainment business women especially, Sophia Loren, Gina Lollabrigida and others, recognised a soulmate. *Paris Match* said he was one of the world's great lovers. Our picture is of him with Grace Kelly in 1968. At the age of 48 he dumped his wife of 22 years and married a teenager. He was married once more. He had six children. “I have a woman in my life at all times,” he said. But although immortality by way of sex eluded Dr Barnard, there were compensations. As a heart surgeon he did memorable work, although even here there are reservations to be made.

American restraints

Christiaan Barnard learnt about heart surgery in the United States, chiefly at the University of Minnesota, after working for ten years mainly in general practice in his native South Africa. Whatever ambitions American surgeons may have had to replace a failing heart with a healthy one, the medical ethics prevailing at the time were against using the heart of someone who was brain dead while the heart was still functioning, albeit artificially. Back in South Africa Dr Barnard joined the heart department of Groote Schuur Hospital in Cape Town and eventually headed a team of 30. “We didn't have the legal restraints that existed in the United States,” he recalled. In 1967, after nine years of experiments, mainly on dogs, Dr Barnard and his team removed the heart from a young woman brain dead after a car accident and used it to replace the wonky heart of a 55-year-old grocer. The substitute heart started to beat vigorously and the operation was deemed a success. The patient died 18 days later of pneumonia. Large doses of drugs designed to prevent the heart being rejected had left him open to infection. Dr Barnard's second transplant patient lived for 18 months after the operation. His longest-surviving patient lived with a substituted heart for 23 years.

Dr Barnard carried out 75 transplants before giving up surgery in the 1980s because of arthritis. An estimated 100,000 heart transplant operations have so far been carried out in various countries. In the United States it is claimed that 75% of patients can expect to live for at least five years after the

operation. What Dr Barnard did was to show the way. Other heart surgeons, suppressing their irritation about his love of fame, have been generous in their praise for his courage in confronting the question of brain death. Today it is accepted in many countries that brain dead means dead, although in Japan there were no heart transplant operations for 31 years after a surgeon who carried out the operation in 1968 was accused of murder. Many Japanese take the view that a person is alive while the heart is beating, and the country's law on the subject of brain death remains cloudy.

Dr Barnard dismissed what he called the mystique of the heart. The object of desire in poetry since humans acquired words was simply a primitive pump. One of the doctor's charms was his simple directness, perhaps acquired from his father, a missionary who drew big crowds as a preacher. Dr Barnard's openness amused the glamorous, but it also made him respected in his own world in racial South Africa, where he had to make choices. They tended to be good ones. He campaigned for black doctors to have equal pay with whites. He employed non-white nurses to treat white patients. He operated on blacks and whites according to their needs. An American he operated on said he hoped he had been given a white heart. Dr Barnard said he could not say. You couldn't tell the difference.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Sep 6th 2001
From The Economist print edition

American manufacturing was much stronger than expected in August. The National Association of Purchasing Managers' index of manufacturing activity rose to 47.9 in August from 43.6 a month before, its biggest monthly gain in five years. But a number below 50 indicates that output is still contracting, as it has since August 2000. American productivity growth for the second quarter of 2001 was revised downwards to an annual rate of 2.1%, from 2.5% reported earlier.

The **Dow Jones Industrial Average** fell below 10,000 for the first time in four months, but then inched back above this mark. The dollar made one of its biggest jumps of the year against the euro on September 4th, as investors fretted that strong American manufacturing figures would stop the Federal Reserve from cutting interest rates again.

Unemployment in the **euro zone** was unchanged at 8.3% in July. **Spain**'s unemployment remained the highest of the 12 countries at 12.8%. French unemployment rose for the second month running, to 8.9%. Retail sales in the euro zone rose unexpectedly in June by 2.1% from a year earlier, offering some reason for hope. Italian producer-price inflation slowed to 1.4% in the year to July—the slowest since September 1999.

Deflation continues in **Japan**: consumer prices fell by 0.8% in July. The Nikkei fell by 7% over the week.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Sep 6th 2001
From The Economist print edition

% change at annual rate

	GDP 1 qtr	GDP 1 year		The Economist poll GDP forecasts 2001	2002	Industrial production 1 year	Retail sales (volume) 1 year	Unemployment % rate latest	year ago
Australia	+ 4.3	+ 2.1	Q1	+ 2.5	+ 4.0	– 1.4 Q1*	+ 0.7 Q2	6.9 Jul	6.1
Austria	+ 1.6	+ 2.2	Q1	+ 1.7	+ 2.1	+ 8.0 Jun	– 3.3 May	3.8 Jul	3.6
Belgium	– 2.4	+ 1.7	Q2	+ 1.9	+ 2.4	– 0.5 Jun*	– 3.4 May	11.1 Jul*	11.2
Britain	+ 1.4	+ 2.1	Q2	+ 2.1	+ 2.6	– 3.2 Jul	+ 6.0 Jul	5.0 Jun‡	5.5
Canada	+ 0.4	+ 2.1	Q2	+ 2.1	+ 2.8	– 2.4 Jun	+ 3.6 May	7.0 Jul	6.8
Denmark	– 4.6	+ 1.0	Q1	+ 1.3	+ 2.1	+ 4.4 Jun	+ 3.0 Jun	5.1 Jul	5.4
France	+ 1.9	+ 2.9	Q1	+ 2.2	+ 2.3	+ 2.3 Jun	+ 2.3 Jun	8.9 Jul	9.5
Germany	nil	+ 0.6	Q2	+ 1.1	+ 1.9	+ 0.9 Jun	+ 0.5 Jun	9.3 Aug	9.4
Italy	– 0.5	+ 2.0	Q2	+ 1.9	+ 2.2	– 3.1 Jun	+ 0.1 Jun	9.5 Apr	10.7
Japan	+ 0.5	+ 0.2	Q1	– 0.4	+ 0.5	– 8.5 Jul	– 2.4 Jun	5.0 Jul	4.7
Netherlands	+ 1.6	+ 1.5	Q2	+ 1.7	+ 2.5	+ 0.7 Jun	+ 1.5 Mar	2.0 Jul§	2.6
Spain	+ 4.1	+ 3.3	Q1	+ 2.7	+ 2.8	– 2.6 Jun	na	12.8 Jul	14.0
Sweden	+ 1.3	+ 1.4	Q2	+ 2.0	+ 2.6	– 1.0 May	+ 2.1 Jun	4.2 Jul*	5.2
Switzerland	+ 7.4	+ 2.5	Q1	+ 1.6	+ 1.9	+ 5.1 Q1*	+ 8.4 Jun	1.7 Jul*	1.8
United States	+ 0.2	+ 1.2	Q2	+ 1.6	+ 2.6	– 3.2 Jul	+ 3.8 Jul	4.5 Jul	4.0
Euro area	+ 2.0	+ 2.5	Q1	+ 1.8	+ 2.2	+ 1.4 Jun	+ 2.1 Jun	8.3 Jul	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	– 0.4	+ 3.4	Q1	na	na	– 5.4 Jul	+ 2.2 May	7.6 Jul*	7.8
Greece	na	+ 2.5	2000	na	na	– 0.8 Mar*	+ 5.1 Mar	na	na
Iceland	na	+ 3.6	2000	na	na	+ 2.5 2000	na	1.3 Jun	1.4
Ireland	na	+12.1	Q4	na	na	+13.9 Jun*	+ 1.1 Jun	3.6 Jul	4.0
Luxembourg	na	+ 8.5	2000	na	na	+ 1.4 May*†	+ 9.1 Jun	2.4 Jun	2.7
New Zealand	+ 0.9	+ 0.4	Q1	na	na	+ 0.9 Q1*	+ 7.2 Q2	5.2 Q2	6.1
Norway	+ 0.9	+ 0.3	Q1	na	na	– 0.1 Jun*	– 0.8 Jun	3.6 Q2	3.3
Portugal	– 0.3	+ 2.2	Q1	na	na	+ 5.1 Jun*	+ 2.2 May	4.2 Q1	4.4

*Not seasonally adjusted. ‡ Apr-Jun; claimant count rate 3.2% in Jul. §May-Jul.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Sep 6th 2001
From The Economist print edition

% change at annual rate

	Consumer prices* 1 year		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	2002	Producer prices* 1 year		Producer prices* year ago	Wages/earnings 1 year		Wages/earnings year ago
Australia	+ 6.0	Q2	+ 3.2	+ 4.0	+ 2.4	+ 5.6	Q2	+ 7.4	+ 3.7	Q2	+ 3.9
Austria	+ 2.7	Jul	+ 2.8	+ 2.5	+ 1.8	+ 1.7	Aug	+ 4.3	+ 2.8	Jul	+ 2.0
Belgium	+ 2.7	Aug	+ 2.9	+ 2.5	+ 1.9	+ 4.0	Jun	+ 8.7	+ 2.6	Q2	+ 2.2
Britain	+ 1.6	Jul	+ 3.3	+ 2.1	+ 2.3	+ 0.1	Jul	+ 2.7	+ 4.8	Jun	+ 4.1
Canada	+ 2.6	Jul	+ 3.0	+ 2.8	+ 2.1	+ 0.9	Jul	+ 4.2	+ 1.7	Jun	+ 1.0
Denmark	+ 2.4	Jul	+ 3.1	+ 2.4	+ 2.0	+ 2.7	Jul	+ 5.8	+ 4.7	Q2	+ 3.3
France	+ 2.1	Jul	+ 1.7	+ 1.8	+ 1.5	+ 2.3	Jun	+ 6.0	+ 4.3	Q1	+ 5.2
Germany	+ 2.6	Aug	+ 1.8	+ 2.6	+ 1.5	+ 2.2	Jul	+ 5.5	+ 1.8	Jun*	+ 2.1
Italy	+ 2.8	Aug	+ 2.6	+ 2.7	+ 2.0	+ 1.4	Jul	+ 6.7	+ 2.5	Jul*	+ 2.0
Japan	− 0.8	Jul	− 0.5	− 0.5	− 0.4	+ 0.8	Jul	− 0.4	+ 1.4	Jul*	+ 1.2
Netherlands	+ 4.6	Jul	+ 2.8	+ 4.6	+ 2.5	+ 2.4	Jul	+ 8.0	+ 4.4	Jul	+ 3.2
Spain	+ 3.9	Jul	+ 3.6	+ 3.7	+ 2.8	+ 2.0	Jul	+ 5.5	+ 3.4	Q1†	na
Sweden	+ 2.9	Jul	+ 1.2	+ 2.3	+ 1.8	+ 2.1	Jul	+ 3.7	+ 2.3	Jun*	+ 4.9
Switzerland	+ 1.1	Aug	+ 1.1	+ 1.3	+ 1.2	+ 0.2	Jul	+ 2.7	+ 1.3	2000	+ 0.3
United States	+ 2.7	Jul	+ 3.7	+ 3.2	+ 2.2	+ 1.5	Jul	+ 4.3	+ 4.4	Jul	+ 3.6
Euro area	+ 2.8	Jul	+ 2.3	+ 2.7	+ 1.8	+ 3.3	Jun	+ 5.6	+ 2.6	Q1	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.5	Jul	+ 3.7	na	na	+ 0.7	Jul	+ 8.0	+ 4.8	Q2*	+ 4.6
Greece	+ 3.8	Jul	+ 2.7	na	na	+ 5.1	Apr	+ 7.0	na		na
Iceland	+ 7.9	Aug	+ 4.7	na	na	+ 6.9	Aug	+ 3.5	+ 8.1	Jul	+ 7.9
Ireland	+ 4.8	Jul	+ 6.2	na	na	+ 2.6	Jul	+ 5.6	+ 6.4	Q4*	+ 7.3
Luxembourg	+ 3.0	Jul	+ 3.4	na	na	nil	Jun	+ 5.5	+ 2.4	May*	+ 8.4
New Zealand	+ 3.2	Q2	+ 2.0	na	na	+ 8.1	Q2	+ 5.9	+ 1.8	Q2	+ 1.7
Norway	+ 2.7	Jul	+ 3.3	na	na	− 3.1	Jul	+ 6.4	+ 4.4	Q1*	+ 4.1
Portugal	+ 4.3	Jul	+ 3.2	na	na	+ 1.3	Jul	+17.4	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economic forecasts

Sep 6th 2001
From The Economist print edition

The Economist poll of forecasters, September averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2001	2002	2001	2002	2001	2002	2001	2002
Australia	1.8/3.5	3.3/4.5	2.5 (2.6)	4.0	4.0 (3.9)	2.4	−2.8(−2.9)	−3.1
Austria	1.1/2.3	1.1/2.6	1.7 (1.8)	2.1 (2.3)	2.5	1.8	−2.4(−2.3)	−2.3 (−2.2)
Belgium	1.6/2.5	1.9/3.1	1.9 (2.1)	2.4	2.5 (2.6)	1.9 (2.0)	4.2 (4.3)	4.5
Britain	1.9/2.4	2.2/3.1	2.1 (2.2)	2.6 (2.7)	2.1	2.3 (2.4)	−1.7(−1.8)	−2.1
Canada	1.5/3.2	2.0/3.6	2.1 (2.2)	2.8 (3.1)	2.8	2.1	3.1	2.3 (2.4)
Denmark	0.7/1.9	1.7/2.4	1.3 (1.4)	2.1	2.4	2.0 (2.1)	1.4	1.4
France	1.9/2.4	1.9/2.7	2.2	2.3 (2.4)	1.8	1.5	1.5 (1.6)	1.6
Germany	0.7/1.5	1.3/2.3	1.1 (1.2)	1.9 (2.0)	2.6 (2.7)	1.5 (1.7)	−1.0	−0.9 (−0.8)
Italy	1.7/2.2	1.8/2.6	1.9 (2.0)	2.2 (2.3)	2.7 (2.8)	2.0	−0.3	−0.2
Japan	−1.1/1.5	−0.5/1.7	−0.4 (−0.5)	0.5 (0.7)	−0.5 (−0.4)	−0.4	2.1 (2.2)	2.0 (2.1)
Netherlands	0.8/2.5	1.7/3.5	1.7 (2.0)	2.5 (2.8)	4.6	2.5 (2.7)	3.9	3.9
Spain	2.3/3.0	2.4/3.3	2.7	2.8 (2.9)	3.7	2.8	−2.8	−2.3
Sweden	1.5/2.3	2.0/3.4	2.0 (2.2)	2.6 (2.7)	2.3	1.8	2.1	2.3
Switzerland	1.5/1.8	1.3/2.3	1.6 (1.7)	1.9 (2.0)	1.3	1.2 (1.3)	10.9(11.0)	10.7 (10.8)
United States	1.0/1.8	1.0/3.5	1.6	2.6 (2.7)	3.2	2.2	−4.1	−4.0
Euro area	1.6/2.1	1.8/2.5	1.8 (1.9)	2.2 (2.3)	2.7 (2.8)	1.8 (1.9)	−0.2	−0.1

Sources: ABN Amro, Deutsche Bank, EIU, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan, Morgan Stanley Dean Witter, Nordbanken, Decision Economics, Royal Bank of Canada, Salomon Smith Barney, Scotiabank, Shinsei Bank, Warburg Dillon Read.

Each month *The Economist* surveys a group of economic forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and the euro area. The table also shows the highest and lowest projections for economic growth. The previous month's forecasts, where different, are shown in brackets. The panel has again become more pessimistic about the prospects for growth. It has lowered its forecasts for 11 countries in 2001 and for 12 in 2002. The panel has downgraded its projection for the euro area for both years. Its prediction for the United States in 2001 remains unchanged, but it has reduced it for 2002. The biggest drop is for the Netherlands, which is now expected to grow by only 1.7% this year compared with last month's forecast of 2%.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Sep 6th 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Sep 5th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+17.7	+ 6.6	Jul	4.78	6.50	5.00	5.79	6.01	7.23
Britain	+ 7.1	+ 7.6	Jul	4.70	6.19	4.98	5.01	5.27	6.29
Canada	+ 6.9	+ 4.8	Jul	3.81	5.60	4.17	5.50	5.67	6.93
Denmark	+ 5.5	+ 1.0	Jul	4.62	5.80	4.51	5.11	5.52	7.08
Japan	+ 8.7	+ 3.3	Jul	0.02	0.32	0.05	1.34	1.95	1.47
Sweden	+ 6.5	+ 2.2	Jul	4.31	3.95	4.59	5.23	5.21	5.41
Switzerland	+ 0.3	+ 3.0	Jul	3.18	3.47	3.07	3.33	3.78	4.15
United States	+ 3.0	+11.5	Jul	3.37	6.58	3.77	4.97	5.71	6.84
Euro area†	+ 3.3	+ 6.4	Jul	4.27	5.00	4.08	4.84	5.15	5.63

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.48%, Japan No.234 1.38%. Central bank rates: US fed funds 3.50%, ECB refinancing 4.25%, BOJ overnight call 0.01%, BOE repo 5.00%.
Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Sep 6th 2001
From The Economist print edition

1995=100

	Aug 28th	Sep 4th*	% change on one month	% change on one year
Dollar index				
All items	68.4	67.7	– 1.1	– 7.2
Food	68.8	68.5	– 1.2	– 3.0
Industrials				
All	67.8	66.6	– 0.8	–12.5
Nfa†	67.2	67.1	– 2.4	– 0.4
Metals	68.3	66.2	+ 0.6	–20.7
Sterling index				
All items	74.5	73.9	– 3.0	– 6.9
Euro index				
All items	98.9	100.0	– 2.6	– 7.7
Yen index				
All items	87.8	85.6	– 5.0	+ 4.4
Gold				
$ per oz	272.20	272.35	+ 2.2	– 1.0
West Texas Intermediate				
$ per barrel	27.22	26.95	– 4.2	–20.4

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Stockmarkets

Sep 6th 2001
From The Economist print edition

Market indices

	Sep 5th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,231.1	3,425.2	3,094.3	– 0.7	– 5.7	+ 2.4	– 4.1
Austria (ATX)	1,200.2	1,245.8	1,052.2	– 0.4	–30.9	+11.8	+ 5.8
Belgium (Bel 20)	2,888.1	3,030.4	2,591.6	+ 1.4	–21.6	– 4.5	– 9.6
Britain (FTSE 100)	5,316.0	6,334.5	5,275.7	– 1.7	–23.3	–14.6	–16.9
Canada (Toronto Composite)	7,447.7	9,348.4	7,399.2	– 1.2	–34.6	–16.6	–19.7
Denmark (KBX)	232.2	294.3	232.2	– 5.7	–23.0	–12.3	–16.8
France (SBF 250)	2,960.1	3,820.2	2,960.1	– 4.6	–32.6	–21.5	–25.7
(CAC 40)	4,571.6	5,998.5	4,571.6	– 5.0	–34.0	–22.9	–27.0
Germany (Xetra DAX)	5,048.1	6,795.1	5,048.1	– 3.3	–37.4	–21.5	–25.8
Italy (BCI)	1,479.0	1,948.4	1,479.0	– 4.9	–32.2	–22.8	–27.0
Japan (Nikkei 225)	10,598.8	14,529.4	10,409.7	– 7.0	–72.8	–23.1	–27.1
(Topix)	1,087.7	1,441.0	1,071.7	– 6.7	–62.3	–15.3	–19.6
Netherlands (AEX)	513.1	642.3	513.1	– 2.5	–26.9	–19.5	–23.9
Spain (Madrid SE)	790.5	963.9	790.5	– 2.6	–31.0	–10.2	–15.1
Sweden (Affarsvarlden Gen)	207.8	293.1	207.8	– 5.6	–48.1	–25.2	–33.9
Switzerland (Swiss Market)	6,508.1	8,135.4	6,458.3	– 2.3	–22.6	–20.0	–23.8
United States (DJIA)	10,033.3	11,337.9	9,389.5	– 2.4	–14.4	– 7.0	– 7.0
(S&P 500)	1,131.7	1,373.7	1,103.3	– 2.9	–25.9	–14.3	–14.3
(Nasdaq Comp)	1,759.0	2,859.2	1,638.8	– 5.4	–65.2	–28.8	–28.8
Europe (FTSE Eurotop 300)*	1,252.9	1,545.5	1,248.7	– 1.7	–26.5	–18.3	–22.7
Euro area (FTSE Ebloc 100)*	1,080.5	1,404.1	1,080.5	– 4.0	–30.3	–22.4	–26.6
World (MSCI)†	1,004.8	1,249.2	1,004.8	– 3.8	–30.6	na	–17.7
World bond market (Salomon)‡	443.2	451.0	420.6	– 1.7	– 3.6	na	– 0.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Sep 6th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Sep 5th	Exchange rate trade-weighted† year ago	Currency units per $ Sep 5th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 0.7 Jul	− 9.9 Q2	− 2.8	− 3.1	72.2	75.5	1.92	1.77	2.79	1.71	1.60	0.1
Austria	− 5.4 May	− 4.3 Jun	− 2.4	− 2.3	100.1	99.3	15.5	15.7	22.5	13.8	12.9	-0.6
Belgium	+ 10.6 Jun	+ 11.2 Mar	+ 4.2	+ 4.5	98.7	97.7	45.4	46.0	66.0	40.3	37.7	0.7
Britain	− 44.9 Jun	− 19.2 Q1	− 1.7	− 2.1	107.3	106.7	0.69	0.69	–	0.61	0.57	1.2
Canada	+ 47.4 Jun	+ 25.5 Q2	+ 3.1	+ 2.3	77.0	80.5	1.56	1.48	2.27	1.39	1.30	2.6
Denmark	+ 6.9 Jun	+ 4.5 Jun	+ 1.4	+ 1.4	102.1	99.5	8.38	8.50	12.2	7.44	6.96	2.9
France	nil Jun	+ 14.3 Jun	+ 1.5	+ 1.6	101.3	100.3	7.38	7.47	10.7	6.56	6.13	-0.5
Germany	+ 57.2 Jun	− 21.8 Jun	− 1.0	− 0.9	98.2	96.7	2.20	2.23	3.20	1.96	1.83	-1.7
Italy	+ 3.6 Jun	− 4.9 May	− 0.3	− 0.2	72.3	71.6	2,180	2,206	3,166	1,936	1,811	-1.3
Japan	+ 90.4 Jun	+ 96.3 Jun	+ 2.1	+ 2.0	140.3	159.5	120	106	175	107	–	-6.3
Netherlands	+ 18.9 Jun	+ 13.7 Q2	+ 3.9	+ 3.9	97.6	96.4	2.48	2.51	3.60	2.20	2.06	1.3
Spain	− 38.9 Jun	− 15.2 May	− 2.8	− 2.3	74.0	73.3	187	190	272	166	156	nil
Sweden	+ 11.8 Jul	+ 5.6 Jun	+ 2.1	+ 2.3	73.3	82.1	10.68	9.56	15.5	9.48	8.87	3.6
Switzerland	+ 0.3 Jul	+ 28.3 Q1	+10.9	+10.7	108.8	104.6	1.70	1.76	2.47	1.51	1.41	na
United States	−453.5 Jun	−449.3 Q1	− 4.1	− 4.0	118.6	112.9	–	–	1.45	0.89	0.83	2.1
Euro area	− 1.2 May	− 28.0 Jun	− 0.2	− 0.1	78.0	76.4	1.13	1.14	1.64	–	0.94	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 14.1 Jun	+ 9.3 Jun	na	na	78.2	75.9	6.69	6.77	9.72	5.94	5.56	5.3
Greece	− 7.5 Jan	− 7.7 Jan	na	na	57.3	57.1	384	385	557	341	319	nil
Iceland	− 0.3 Jul	− 0.9 Q1	na	na	na	na	100	82.0	145	88.6	82.8	2.4
Ireland	+ 29.1 Jun	− 1.3 Q1	na	na	86.8	86.5	0.89	0.90	1.29	0.79	0.74	4.5
Luxembourg	− 2.5 May	+ 1.2 Q1	na	na	98.7	97.7	45.4	46.0	65.9	40.3	37.7	3.6
New Zealand	nil Jul	− 2.3 Q1	na	na	81.9	76.4	2.31	2.35	3.36	2.05	1.92	1.0
Norway	+ 28.0 Jul	+ 26.1 Jun	na	na	96.6	92.5	8.94	9.15	13.0	7.94	7.43	15.3
Portugal	− 13.7 May	− 9.2 Jun	na	na	89.1	88.3	226	228	328	200	187	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist all-items index

Sep 6th 2001
From The Economist print edition

Our all-items commodity-price index has fallen below its May 1999 level, reached after the Asian economic crisis. The global economic slowdown is hammering metals prices, and surpluses are depressing food prices.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Sep 6th 2001
From The Economist print edition

Hong Kong is dangerously close to recession. GDP contracted by 6.6% at an annual rate in the second quarter, leaving output a meagre 0.5% higher than it had been a year earlier. The fall in output was worse than expected. First-quarter growth was also revised down to zero.

South Korea's industrial production fell by 5.9% in the year to July. Exports tumbled by 19.4% in the year to August, reducing the 12-month trade surplus to $13.1 billion.

Turkey's financial crisis has hit the economy harder than expected. GDP plunged by 9.3% in the year to the second quarter. The Turkish lira lost 2.6% against the dollar this week, partially reversing a three-week-long rally.

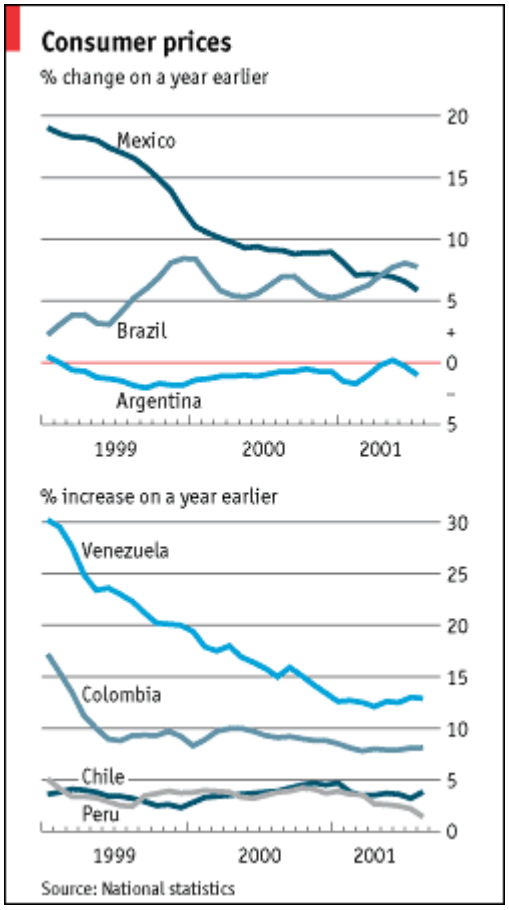
Consumer-price inflation fell in August in Indonesia, the Philippines, South Korea, Thailand, Peru and Colombia, but rose in Taiwan, Chile and Turkey.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Consumer prices

Sep 6th 2001
From The Economist print edition

Single-digit inflation is the norm in Latin America these days. Indeed, prices have been falling in recession-plagued Argentina. The one country in our chart in which inflation is on the rise is Brazil, thanks largely to the fall in the value of the *real* . The upper limit of the central bank's inflation target for this year, 6%, looks likely to be breached.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Sep 6th 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.8	Q2	+ 8.1	Jul	+ 1.5	Jul	+19.9	Jul	+20.5	2000	182.0	May
Hong Kong	+ 0.5	Q2	– 0.1	Q1	– 0.9	Jul	–12.1	Jul	+ 8.8	Q1	114.6	Jul
India	+ 3.8	Q1	+ 1.5	Jun	+ 4.0	Jul	– 5.3	Jun	– 2.3	Q1	40.9	Jul
Indonesia	+ 3.5	Q2	+ 7.5	Q1	+12.2	Aug	+24.5	Jul	+ 6.3	Q1	27.9	Jun
Malaysia	+ 0.5	Q2	– 9.9	Jun	+ 1.4	Jul	+15.4	Jul	+ 7.4	Q1	25.6	Jun
Philippines	+ 3.3	Q2	+11.2	Jun	+ 6.3	Aug	+ 5.1	Jun	+ 7.8	May	12.5	May
Singapore	– 0.9	Q2	–13.2	Jul	+ 1.3	Jul	+ 4.6	Jul	+22.6	Q2	76.0	May
South Korea	+ 2.7	Q2	– 5.9	Jul	+ 4.7	Aug	+13.1	Aug	+13.3	Jul	94.3	Jun
Taiwan	– 2.4	Q2	–10.4	Jul	+ 0.4	Aug	+12.6	Jul	+14.1	Q2	110.1	Jul
Thailand	+ 1.8	Q1	+ 2.1	Jul	+ 1.4	Aug	+ 2.5	Jul	+ 6.1	Jul	31.2	Jul
Argentina	– 2.1	Q1	+ 0.2	Jul	– 1.0	Jul	+ 2.6	Jul	– 9.0	Q1	16.7	Jul
Brazil	+ 0.8	Q2	– 1.4	Jun	+ 7.8	Jul	– 1.1	Aug	–27.5	Jul	35.5	Jul
Chile	+ 3.4	Q2	+ 0.3	Jul	+ 3.8	Aug	+ 1.5	Jul	– 1.6	Q2	14.3	Jun
Colombia	+ 1.6	Q2	– 2.6	Jun	+ 8.0	Aug	+ 1.3	Jun	– 0.7	Q1	9.5	Jul
Mexico	nil	Q2	– 3.9	Jun	+ 5.9	Jul	– 9.6	Jul	–17.5	Q2	40.8	Jul
Peru	– 2.3	Jun	+ 1.3	May	+ 1.4	Aug	– 0.2	Jun	– 1.4	Q2	8.3	May
Venezuela	+ 2.9	Q2	na		+12.9	Aug	+15.6	Q2‡	+11.1	Q2	10.5	Jun
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	Jun	– 9.9	Q1	– 0.2	Q1	13.0	Apr
Israel	+ 1.4	Q2	–10.4	Jun	+ 0.4	Jul	– 7.3	Jul	– 1.1	Q1	23.9	Jul
South Africa	+ 2.5	Q2	+ 3.1	Jun	+ 5.3	Jul	+ 4.5	Jul	+ 0.1	Q1	6.1	Jun
Turkey	– 9.3	Q2	–10.4	Jun	+57.5	Aug	–20.9	Jun	– 3.7	Jun	17.2	Jul
Czech Republic	+ 3.8	Q1	+ 3.7	Jun	+ 5.9	Jul	– 3.5	Jul	– 2.7	Q2	12.9	Jul
Hungary	+ 4.4	Q2	nil	Jul	+ 9.4	Jul	– 2.2	Jul	– 1.5	Jul	11.9	Jul
Poland	+ 2.3	Q1	+ 1.1	Jul	+ 5.2	Jul	– 9.9	Jul	– 6.8	Jul	27.0	Jul
Russia	+ 4.9	Q1	+ 2.9	Jul	+22.2	Jul	+59.5	Jun	+45.9	Q1	32.7	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 9.1	May	+ 2.5	Jul	– 1.5	Jul	– 1.1	2001†	1.3	May
Saudi Arabia	+ 4.5	2000§	na		– 0.2	May	+50.9	2000	+15.6	2000	17.1	Jun

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; EIU; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Sep 6th 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Sep 5th		Dec 31st 2000	
	Sep 5th	year ago	Sep 5th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.0	na	1,951.0	– 1.9	–11.0	–11.0
Hong Kong	7.80	7.80	11.3	3.37	10,943.1	– 2.2	–27.5	–27.5
India	47.2	45.6	68.5	6.83	3,228.6	– 2.1	–18.7	–19.5
Indonesia	9,055	8,363	13,153	17.78	442.2	+0.1	+6.2	+13.5
Malaysia	3.80	3.80	5.52	3.30	688.9	– 0.0	+1.4	+1.4
Philippines	51.2	45.6	74.4	11.44	1,254.3	– 1.3	–16.1	–18.0
Singapore	1.75	1.73	2.54	2.22	1,622.5	– 0.8	–15.8	–16.5
South Korea	1,277	1,107	1,855	4.81	551.9	– 2.4	+9.4	+8.3
Taiwan	34.6	31.0	50.2	3.60	4,424.9	– 1.9	– 6.7	–10.7
Thailand	44.3	41.3	64.4	3.00	338.2	+0.1	+25.6	+22.9
Argentina	1.00	1.00	1.45	19.20	313.3	– 3.7	–24.9	–24.9
Brazil	2.56	1.82	3.72	19.03	12,590.9	– 3.6	–19.3	–38.6
Chile	664	570	965	3.15*	5,645.0	– 0.6	+15.9	+0.1
Colombia	2,315	2,211	3,362	12.29	992.9	+0.3	na	na
Mexico	9.25	9.30	13.4	8.75	6,088.5	– 3.7	+7.7	+11.8
Peru	3.48	3.47	5.1	5.45	1,321.9	– 1.4	+9.4	+10.8
Venezuela	740	690	1,075	18.58	7,195.1	+3.1	+5.9	+0.2
Egypt	4.26	3.52	6.19	8.91	6,471.0	+12.0	–15.5	–22.9
Israel	4.29	4.03	6.23	4.47	403.2	– 3.3	–18.5	–23.1
South Africa	8.50	7.07	12.3	9.64	8,931.3	– 1.1	+7.3	– 4.4
Turkey	1,413,500	659,425	2,053,250	56.00	9,630.4	– 3.6	+2.0	–51.6
Czech Republic	38.4	40.2	55.8	5.49	354.4	– 4.4	–25.9	–27.4
Hungary	283	298	411	11.00	6,339.6	– 0.1	–19.2	–19.4
Poland	4.24	4.38	6.16	14.84	12,998.7	+3.0	–27.2	–29.0
Russia	29.5	27.9	42.8	25.00	209.8†	+1.1	+50.6	+46.4
EMF (MSCI)‡	1.00	1.00	1.45	na	295.0	– 2.3	na	–11.6
EMBI+§	1.00	1.00	1.45	na	211.3	– 0.1	na	+4.7

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; EIU; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.